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Checklists and illustrative financial statements : Defined benefit pension plans, April 2009 edition

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Defined Benefit Pension Plans – April 2009

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

Defined Benefit Pension Plans

April 2009

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Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

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TABLE OF CONTENTS

FSP Section 7000

Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans

Acknowledgments

The AICPA gratefully appreciates the invaluable assistance JulieAnn Verrekia, CPA, provided in updating and maintaining the guidance in this checklist.

Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans. Defined benefit pension plans provide a promise to pay to participants specified benefits that are determinable and are based on such factors as age, years of service, and compensation.

.02 Defined benefit pension plans may be single employer plans or multiemployer plans. In addition, these plans may be funded through accumulated contributions and investment income (self-funded plans), insurance contracts (insured plans), or a combination of both (split-funded plans). Contributions may be required from both employers and participants (contributory plans) or from employers only (noncontributory plans).

.03 Traditional defined benefit pension plans provide benefits that are defined in terms of a percentage of final average compensation or career average compensation, or as a flat dollar benefit per year of service. Recently, new types of benefit formulas have become more popular, including the following:

a. ***Cash balance plans.*** A cash balance plan is a special form of career average compensation plan. Typically, a cash balance defined benefit pension plan maintains hypothetical "accounts" for participants. The employer credits participants' "accounts" with a certain number of dollars each plan year, and promises earnings at a specified rate. Interest on the "account" balance is credited at a stated rate, which may be different from the plan's actual rate of investment return.

b. ***Pension equity plans.*** A pension equity plan is a defined benefit pension plan that has many of the advantages of the cash balance plan, but the benefit formula is similar to a final pay program rather than a career average cash balance program. Under this arrangement, a participant is credited with "points" based on age, service or both. On termination of employment, a participant's final average compensation is multiplied by his or her accumulated points to determine a hypothetical account balance. This balance normally may be distributed as a lump sum or converted to an annuity.

.04 The Pension Benefit Guaranty Corporation (PBGC) guarantees participants in most defined benefit pension plans against the loss of certain pension benefits if the plan terminates, and it administers terminated plans in certain circumstances.

AICPA Employee Benefit Plan Audit Quality Center

.05 The AICPA Employee Benefit Plan Audit Quality Center (EBPAQC), a firm-based, voluntary membership center with the goal of promoting quality employee benefit plan audits, celebrated its fifth anniversary in March 2009. An indicator of the EBPAQC's success comes from the department of Labor (DOL), which is finding through its audit quality monitoring program a demonstrable difference between the quality of audits performed by EBPAQC firms and those audits performed by nonmembers. Reviews performed by the DOL's Employee Benefits Security Administration (EBSA) continue to show fewer audit deficiencies in audits performed by EBPAQC member firms. In addition, where deficiencies are noted they tend to be less severe for EBPAQC member firms. Visit the EBPAQC Web site at www.aicpa.org/ebpaqc to see a complete list of the more than 1,700 EBPAQC members and to preview benefits. For more information, contact the EBPAQC at ebpaqc@aicpa.org.

Regulatory Requirements

.06 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the DOL and the IRS have the authority to issue regulations covering reporting and disclosure requirements. (Appendix A of the AICPA Audit and Accounting Guide *Employee Benefit Plans* [guide] describes which plans are covered by ERISA.)

.07 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL, the IRS, and the PBGC. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC, may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and titles I and IV of ERISA. (See paragraphs .33–.36 for a discussion of the Form 5500.)

Financial Accounting and Reporting Standards

.08 Financial Accounting Standards Board (FASB) Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*,[*] as amended, is a source of established generally accepted accounting principles (GAAP) for defined benefit pension plans. The guide[†] also is a source of established GAAP for defined benefit pension plans.[1]

.09 Statement of Position (SOP) 99-2, *Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans* (AICPA, *Technical Practice Aids*, ACC sec. 10,780), specifies the accounting for and disclosure of 401(h) features of defined benefit pension plans, by both defined benefit pension plans and health and welfare benefit plans. SOP 99-2 has been integrated into chapters 2, 4, and appendixes D and F of the guide.

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[*] The Financial Accounting Standards Board (FASB) has a project to amend FASB Statement No. 87, *Employers' Accounting for Pensions*, and FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*. Be alert to developments on this project at the FASB Web site at www.fasb.org.

[†] In May 2008, FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. FASB Statement No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). FASB Statement No. 162 identifies the sources of accounting principles that are generally accepted and categorizes them in descending order (a–d). FASB Statement No. 162 categorizes AICPA Industry Audit Guides as level (b) GAAP. FASB Statement No. 162 was effective November 15, 2008. On March 27, 2009, FASB released an exposure draft to replace FASB Statement No. 162. The comment period ends May 8, 2009, and the effective date of the standard is expected to be July 1, 2009, which coincides with the release of FASB *Accounting Standards Codification*™ (ASC). The proposed statement establishes FASB ASC as the source of authoritative GAAP to be applied by nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC). Once effective, all other nongrandfathered, non-SEC accounting literature not included in FASB ASC will become nonauthoritative.

Once the proposed statement is effective, the GAAP hierarchy is essentially reduced to two levels: one that is authoritative and one that is not. Exceptions include rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992. The proposed statement is expected to create a new topic, *Generally Accepted Accounting Principles*, in FASB ASC. Readers can monitor the status of the proposed statement at www.fasb.org/draft/index.shtml. For more information about FASB ASC, refer to the FASB ASC Web site at http://asc.fasb.org/home, the FASB ASC project status page at www.fasb.org/project/codification&retrieval_project.shtml, and the discussion about FASB ASC in the notice to readers of the AICPA Audit and Accounting Guide *Employee Benefit Plans*.

[1] See paragraphs .18–.23 for a discussion of the FASB ASC project.

.10 FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, establishes accounting and reporting standards for derivative instruments. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

.11 FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, amended FASB Statement No. 133 to say the following:

> *Certain investment contracts.* A contract that is accounted for under either paragraph 4 of FASB Statement No. 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by Statement 110, is not subject to this Statement. Those exceptions apply only to the party that accounts for the contract under Statement 35 [or] Statement 110.

.12 FASB Statement No. 157, *Fair Value Measurements*, defines fair value and establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The statement amends paragraph 11 of FASB Statement No. 35 to change the definition of fair value.

.13 FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an interpretation of FASB Statement No. 60*, amends and expands the disclosure requirements of FASB Statement No. 133 for derivative instruments and hedging activities. The statement requires qualitative disclosures about the objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements.

FASB Interpretation No. 48

.14 FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. See FASB Interpretation No. 48 for further guidance.

.15 For public enterprises (including nonpublic consolidated entities of public enterprises that apply GAAP), this interpretation is effective for fiscal years beginning after December 15, 2006. For nonpublic enterprises (as defined in paragraph 289 of SFAS No. 109), except for nonpublic consolidated entities of public enterprises that apply U.S. GAAP, this interpretation is effective for annual financial statements for fiscal years beginning after December 15, 2008. See FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, for further guidance on the effective date. Earlier adoption is permitted as of the beginning of an enterprise's fiscal year. When applied, the standard will require assessment of uncertainty of income tax positions for all open years.

Considerations for Employee Benefit Plans

.16 Because benefit plans are generally exempt from income taxes, few issues exist that may trigger the application of FASB Interpretation No. 48. The main concern for all plans is the retention of the plan's tax-exempt status. For retirement plans, the existence of the IRS's Employee Plans Compliance Resolution System under Revenue Procedure 2008-50 is generally assumed to meet the conditions of an *administrative practice or precedent* as defined in FASB Interpretation No. 48, which can be relied upon to retain the plan's exempt status for all but the most egregious of violations. Note that no such relief program exists for welfare benefit plans.

.17 Notwithstanding this general relief for the plan's tax qualified status, a plan may be faced with issues under FASB Interpretation No. 48. These potential issues include, but are not limited to, the following:

- Uncertain tax positions taken by pass-through entities in which the plan has invested that generate material unrelated business income tax (UBIT) to the trust
- The determination of whether a pass-through entity generates unrelated business income to the plan
- The assumptions used in determining the reserves for a welfare benefit plan that is subject to unrelated business income tax due to excess asset accumulations
- The assumptions used by an ESOP of an S corporation to demonstrate satisfaction with the "broadly held" rules of IRC Section 409(p) and the associated exemption from tax on the pass-through income
- The continuation of a welfare benefit plan's tax exempt status
- Where UBIT is material, all aspects of FASB Statement No. 109, including an analysis of any book or tax differences, is required.

FASB *Accounting Standards Codification*™

.18 FASB *Accounting Standards Codification*™ (ASC), which was released on January 15, 2008, for a one-year verification period, disassembled and reassembled thousands of nongovernmental accounting pronouncements (including those of FASB, the Emerging Issues Task Force, and the AICPA) to organize them under approximately 90 topics. FASB ASC also includes relevant portions of authoritative content issued by the Securities and Exchange Commission (SEC) and select SEC staff interpretations and administrative guidance issued by the SEC; however, FASB ASC is not the official source of SEC guidance and does not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. FASB ASC is not intended to change U.S. GAAP or any requirements of the SEC; rather, it is part of FASB's efforts to reduce the complexity of accounting standards and also to facilitate international convergence. Moreover, FASB ASC does not include governmental accounting standards.

.19 FASB ASC features a notice to constituents, which explains the scope, structure, and usage of consistent terminology of FASB ASC. Users are encouraged to read this notice. Refer to FASB ASC Web site at http://asc.fasb.org, or by linking to the Web site from the FASB Web site at www.fasb.org.

.20 FASB is expected to release FASB ASC on July 1, 2009, at which time it will become the source of authoritative U.S. accounting and reporting standards, in addition to guidance issued by the SEC, for nongovernmental entities. FASB ASC will supersede all then-existing, non-SEC accounting and reporting standards for nongovernmental entities. Once effective, all other nongrandfathered, non-SEC accounting literature not included in FASB ASC will become nonauthoritative. After the release of FASB ASC, FASB will no longer consider new standards authoritative in their own right. Instead, new standards will serve only to update FASB ASC and provide the historical basis for conclusions of a new standard.*

.21 Due to the fact that a majority of the users of this checklist will be using it to assist with the issuance of employee benefit plan financial statements for the 2008 plan year, references to authoritative accounting pronouncements in this checklist use traditional references (for example, SFAS 157). Users should be cautioned that any correspondence prepared or financial statements issued after FASB ASC becomes authoritative and effective would use FASB ASC style referencing.

.22 Plan accounting may be found in the following sections of the codification:

- Section 960—*Defined Benefit Pension Plans*
- Section 962—*Defined Contribution Pension Plans*
- Section 965—*Health and Welfare Benefit Plans*

.23 Constituents are encouraged to use FASB's online codification research system free of charge and provide feedback to FASB on the codification. The codification research system includes general information on how to use the online research system and special features such as cross reference reports, which show

* The Financial Accounting Standards Board (FASB) has a project to amend FASB Statement No. 87, *Employers' Accounting for Pensions*, and FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*. Be alert to developments on this project at the FASB Web site at www.fasb.org.

where current standards reside in the codification. Readers are encouraged to register and access the codification at www.fasb.org/project/codification&retreival_project.shtml.

AICPA Technical Practice Aids

.24 Technical Questions and Answers (TIS) section 6930, *Employee Benefit Plans* (AICPA, *Technical Practice Aids*), contains helpful guidance in the form of questions and answers relating to employee benefit plan accounting, auditing and regulatory matters. These nonauthoritative Technical Practice Aids (TPAs) are based on selected practice matters identified by AICPA staff and various other bodies within the AICPA, including the AICPA Employee Benefit Plans Expert Panel.

Fair Value Measurement Disclosures for Master Trusts

.25 The AICPA has recently issued a TPA to provide guidance on the required fair value measurement disclosures to be made when a plan holds investments in a master trust: TIS section 6931.11, "Fair Value Measurement Disclosures for Master Trusts" (AICPA, *Technical Practice Aids*). This practice aid assists with the implementation of FASB Statement No. 157 for employee benefits plans that have investments in a master trust.

.26 The TPA is available on the AICPA's Web site at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards/recent_tpas.htm and is also reprinted in the following paragraph.

.27 *Inquiry*—Employee benefit plans often hold investments under master trust arrangements. According to the Department of Labor's Form 5500 instructions, a *master trust* is a trust for which a regulated financial institution serves as trustee or custodian and in which assets of more than one plan, sponsored by a single employer or by a group of employers under common control, are held.

In a typical master trust arrangement, the plan does not hold units or shares of the master trust but has an undivided interest in the assets of the master trust. However, for participant directed defined contribution plans, the plan typically has a divided interest in the individual assets of the master trust based upon participant direction. The "Additional Financial Statement Disclosures" sections in chapters 2 and 3 of the AICPA Audit and Accounting Guide *Employee Benefit Plans* (guide) discusses the requirement for investments in master trusts to be shown as a single line item on the statement of net assets available for benefits; however, the plan does not "purchase" and "dispose" of its interest in the master trust but is allocated an interest once the plan sponsor chooses to transfer the plan's assets into the master trust. The guide also discusses the requirement for master trust investments to be shown by general type in the footnotes.

For employee benefit plan financial statements, are the disclosure requirements of paragraphs 1–3, 5, and 8 of FASB ASC 820-10-50 required for the plan's total interest in the master trust or the individual investments under the master trust arrangement?

Reply—The disclosures required by paragraphs 1–3, 5, and 8 of FASB ASC 820-10-50 are required for individual investments under a master trust arrangement and are not required for the plan's total interest in the master trust.

According to paragraphs 1–3 of FASB ASC 820-10-50, for assets that are measured at fair value on a recurring basis in periods subsequent to initial recognition, the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements, and for recurring fair value measurements using significant unobservable inputs (level 3), the effect of the measurements on earnings (or changes in net assets) for the period.

Because of the nature of the plan's ownership interest in the master trust—that is, the plan does not hold units or shares of a master trust—the disclosures in FASB ASC 820 should be presented for the underlying master trust investments. Therefore, the plan should disclose separately the following information for each period for each major category of master trust assets and liabilities (quantitative disclosures should be made in tabular format):

a. The fair value measurements recorded during the period and the reasons for the measurements

b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (level 1), significant other observable inputs (level 2), and significant unobservable inputs (level 3)

c. For fair value measurements using significant unobservable inputs (level 3), a description of the inputs and the information used to develop the inputs

d. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) used to measure similar assets or liabilities, or both, in prior periods.

Consideration should be given to combining, or reconciling, or both, the master trust FASB ASC 820 disclosures as described previously with the current master trust disclosures as described in chapters 2–3 of the guide.

Accounting and Reporting by Defined Benefit Pension Plans

.28 Defined benefit pension plan financial statements intended to be presented in accordance with generally accepted accounting principles should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year (ERISA requires that this statement be presented in comparative form)
- A statement of changes in net assets available for benefits for the year then ended
- Information regarding the actuarial present value of accumulated plan benefits
- Information regarding the effects, if significant, of certain factors affecting the year-to-year change in accumulated plan benefits

.29 Information regarding the actuarial present value of accumulated plan benefits and changes therein may be presented in the financial statements or in the notes. Further, the accumulated benefit information may be presented as of the beginning or end of the plan year. However, an end-of-year benefit information date is considered preferable. If the information is as of the beginning of the year, prior year statements of net assets and changes therein are also required. Otherwise, comparative statements are not required (however, see paragraph .33 in this section). Exhibit D-7 in appendix D of the guide illustrates an appropriate financial statement presentation when beginning-of-year benefit information is selected.

.30 Except as noted in paragraph .32 in this section, plan investments are generally presented at their fair value at the reporting date and assets used in the administration of the plan are stated at cost less accumulated depreciation and amortization.

.31 As was stated previously, FASB Statement No. 157 defines fair value, and establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Except as provided in the next sentence, FASB Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with earlier application encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. Delayed application of this statement is permitted for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. An entity that has applied the provisions of this statement in interim or annual financial statements before issuance of FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, must continue to apply all the provisions of this statement. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. See paragraphs 2.09–.25 of the guide, which summarize FASB Statement No. 157, but are not intended as a substitute for the reading of FASB Statement No. 157. See also the "Fair Value Measurements" section of FSP section 7200 for required disclosures.

.32 Insurance contracts, defined in FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, as amended, should be presented in the same manner as specified in the annual report filed by a plan with certain governmental agencies pursuant to ERISA, consistent with the requirements of DOL Form 5500. A plan not subject to ERISA should present its insurance contracts as if the plan were subject to the reporting requirements of ERISA.

ERISA Reporting Requirements

.33 In addition to the reporting requirements of FASB Statement No. 35, as amended, defined benefit pension plans may have reporting requirements under ERISA. The annual report to be filed for employee benefit plans generally is the Form 5500 series.

.34 The agencies have released tips to avoid common filing errors and frequently asked questions (FAQs) for small pension plans that use the audit exception to assist filers in complying with their reporting obligations. The tips and FAQs will help plans avoid basic filing errors and explain the conditions that small pension plans must meet to be eligible for a waiver of the annual audit requirement. The FAQs also include model summary annual report language for the required participant notice under the small plan audit exception. This guidance may be found on the EBSA Web site at www.dol.gov/ebsa.

.35 The DOL, IRS, and PBGC have released the 2008 Form 5500 return and reports, schedules, and instructions to be used by employee benefit plans for plan year 2008 filings. The modifications to the Form 5500 for plan year 2008 are described under "Changes to Note" in the 2008 instructions and are summarized in the Audit Risk Alert *Employee Benefit Plans Industry Developments—2009* (product no. 0224109).

.36 The Form 5500 continues to require that certain supplemental schedules be attached to the annual form 5500 filing. Such schedules include the following:

- Schedule H, line 4i—Schedule of Assets (Held at End of Year)[2]
- Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)
- Schedule H, line 4j—Schedule of Reportable Transactions[3]

The following schedules are required to be reported on Schedule G:

- Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible
- Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible
- Schedule G, Part III—Schedule of Nonexempt Transactions

Practice Tips

Reporting of Delinquent Participant Contributions (Schedule H and Schedule I)—Information concerning delinquent participant contributions reported on line 4a is not required to also be reported again on line 4d (or Schedule G). See the frequently asked questions about reporting delinquent participant contributions on the Form 5500 at the EBSA Web site at www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

Please refer to the instructions to Form 5500 for schedule requirements. Information copies of the forms, schedules and instructions are available on EBSA's Web site at www.efast.dol.gov. Filers may also order forms and IRS publications twenty-four hours a day, seven days a week, by calling 800-TAX-FORM (800-829-3676).

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[2] **Practice Tip**—Historical cost information is not required on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) for participant-directed investments.

[3] **Practice Tip**—Participant- or beneficiary-directed transactions are not required to be taken into account for purposes of preparing the schedule of reportable transactions. In a plan's initial year, the 5 percent threshold for the schedule of reportable transactions is based on the *end-of-year* balance of the plan's assets.

Note: This publication was extracted from sections 7,000 through 7,400 of the AICPA *Financial Statement Preparation Manual*.

Note: This publication was extracted from sections 7,000 through 7,400 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 7100
Instructions

General

.01 This publication includes the following sections:

- **Financial Statements and Notes Checklist—**For use by preparers of defined benefit pension plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist—**For use by auditors in reporting on audited defined benefit pension plan financial statements.
- **Illustrative Financial Statements and Auditor's Reports—**Illustrating a defined benefit pension plan financial statement and auditor's reports.

.02 The checklists and illustrative financial statements have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative practice aids to be used as a memory jogger to aid in the audit of financial statements of defined benefit pension plans.

> This edition of the financial statements and notes checklists and auditor's report checklist have been updated to include certain changes necessary due to the issuance of authoritative pronouncements. Relevant accounting and auditing guidance contained in official pronouncements issued through April 30, 2009, have been considered in the development of this publication. This includes relevant guidance issued up to and including the following:
>
> - Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 164, *Not-for-Profit Entities: Mergers and Acquisitions—Including an amendment of FASB Statement No. 142*, and revised FASB Statements issued through April 30, 2009, including
>   - — FASB Statement No. 141 (revised 2007), *Business Combinations*
> - FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*
> - FASB Technical Bulletin No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
> - FASB Staff Positions issued through April 1, 2009
> - FASB Emerging Issues Task Force consensuses adopted through the April 2009 meeting
> - Statement on Auditing Standards (SAS) No. 116, *Interim Financial Information* (AICPA, *Professional Standards*, AU sec. 722)
> - Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (AICPA, *Technical Practice Aids*, ACC sec. 10,930)
> - Practice Bulletin No. 15, *Accounting by the Issuer of Surplus Notes* (AICPA, *Technical Practice Aids*, PB sec. 12,150)

- Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2009)

The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

Instructions

.03 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide for checking off or initialing each question or point to show that it has been considered. Users should check: "Yes" if the disclosure has been appropriately made, "No" if the disclosure has not been made, or "N/A" if the disclosure is not applicable to the engagement. The auditor should consider the effect of a "No" answer on his or her report. A "No" answer that is material to the financial statements may warrant a departure from an unqualified opinion. (See paragraphs .20–.63 of AU section 508, *Reports on Audited Financial Statements* [AICPA, *Professional Standards,* vol. 1].) If a "No" answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write "not material" in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable workpapers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.04 **The checklist is not a substitute for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated nor do they represent minimum requirements. Pronouncements deemed remote for defined benefit plans are not included in this document. The checklists and illustrative financial statements are tools and in no way represent official positions or pronouncements of the AICPA.**

.05 If you have further questions, call the AICPA Technical Hotline at (877) 242-7212.

FSP Section 7200

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 This checklist contains numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AAG =	AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2009)
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
AU =	Reference to section number in AICPA *Professional Standards* (vol. 1)
CFR =	Code of Federal Regulations
DOL =	Department of Labor
ERISA =	Employee Retirement Income Security Act of 1974
FIN =	FASB Interpretation
FSP =	FASB Staff Position
PBGC =	Pension Benefit Guaranty Corporation
SAS =	AICPA Statement on Auditing Standards
SFAS =	FASB Statement of Financial Accounting Standards
SOP =	AICPA Statement of Position

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the following sections listed. Carefully review the topics listed and consider whether they represent potential disclosure items for the plan. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked "N/A" or left blank. For example, if the plan had a change in accounting principle, place a check mark by the section "Changes in Accounting" and complete that section of the checklist. On the other hand, if the plan did not have a change in accounting principle, do not place a check mark by "Changes in Accounting" and skip that section when completing the checklist.

	Place ✓ by Applicable Sections
I. General	
A. Titles and References	________
B. Comparative Financial Statements	________
C. Consolidated Financial Statements	________
II. Statement of Net Assets Available for Benefits	
A. General	________
B. Investments	________

Place ✔ by Applicable Sections

- C. Assets Held in 401(h) Account ________
- D. Operating Assets ________
- E. Contributions Receivable and Uncollectible Amounts ________
- F. Cash ________
- G. Liabilities ________

III. Statement of Changes in Net Assets Available for Benefits

- A. General ________
- B. Contributions ________
- C. Investment Earnings ________
- D. 401(h) Account Assets ________
- E. Transfer of Assets to or From Other Plans ________

IV. Statement of Accumulated Plan Benefits

- A. Actuarial Present Value of Accumulated Plan Benefits ________
- B. Accumulated Contributions of Present Employees ________

V. Statement of Changes in Accumulated Plan Benefits

- A. Presentation of Changes in the Actuarial Present Value of Accumulated Plan Benefits ________
- B. Changes in Actuarial Assumptions ________
- C. Benefits Paid and Other ________

VI. Summary of Significant Accounting Policies

- A. Accounting Policies ________
- B. Certain Significant Estimates ________

VII. Other Financial Statement Disclosures

- A. Accounting Changes and Error Corrections ________
- B. Commitments and Contingencies ________
- C. Current Vulnerability Due to Certain Concentrations ________
- D. Description of Pension Plan ________
- E. Description of Pension Plan Amendments ________
- F. Financial Instruments ________
- F1. Financial Instruments (with SFAS 161 and FSP FAS 133-1 and FIN 45-4) ________
- G. Guarantees ________
- H. Income Tax Status ________
- I. Uncertainty in Income Tax ________
- J. Plan Terminations ________
- K. Related-Party Transactions ________
- L. Subsequent Events ________
- M. Transfers and Servicing of Financial Assets and Securitizations ________
- M1. Transfers and Servicing of Financial Assets and Securitizations (SFAS 156) ________
- N. Fair Value Measurements ________
- O. Other Matters ________

VIII. ERISA Reporting Requirements

- A. Form 5500 Series Report ________
- B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA ________

Place ✔ by Applicable Sections

C. Required Financial Statements and Supporting Schedules ______

IX. Auditors' Report Checklist ______

X. Illustrative Financial Statements and Auditor's Reports ______

Yes *No* *N/A*

General

A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:

   a. A "Statement of Net Assets Available for Benefits" as of the end of the plan year? ____ ____ ____
   [ERISA requires that this statement be presented in comparative form]

   b. A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? ____ ____ ____

   c. A "Statement of Accumulated Plan Benefits" as of either the beginning (amounts as of the end of the preceding year) or end of the plan year? ____ ____ ____
   [Use of an end-of-year information date is considered preferable.]

   d. A "Statement of Changes in Accumulated Plan Benefits?" ____ ____ ____
   [SFAS 35 par. 6 and 8; AAG 2.07]

Practice Tip

The information in questions *c–d* can be alternatively disclosed in the notes to the financial statements.

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2. Is the information regarding both the net assets available for benefits and the actuarial present value of accumulated plan benefits presented as of the same date? ____ ____ ____
   [SFAS 35 par. 7]

3. Is the information regarding both the changes in net assets available for benefits and the changes in the actuarial present value of accumulated plan benefits presented for the same period? ____ ____ ____
   [SFAS 35 par. 7]

4. If accumulated plan benefit information is presented as of the beginning of the year, have the prior year statements of net assets and changes therein also been included? ____ ____ ____
   [SFAS 35 par. 7; AAG 2.44]

5. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, and other factors necessary for users and participants to understand the information provided? ____ ____ ____
   [SFAS 35 par. 5]

6. Is each financial statement suitably titled? ____ ____ ____
   [Generally Accepted]

	Yes	No	N/A
7. Does each statement include a reference to the notes, which are an integral part of the financial statements? [Generally Accepted]	____	____	____

B. Comparative Financial Statements

1. Are comparative statements presented if appropriate?[1] [ARB 43 ch. 2A par. 1–2]	____	____	____
2. If comparative financial statements are presented, are the notes and other disclosures included in the financial statements of the preceding year(s) repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43 ch. 2A par. 2]	____	____	____
3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43 ch. 2A par. 3]	____	____	____

C. Consolidated Financial Statements

1. If consolidated statements are presented, is the consolidation policy disclosed? [ARB 51 par. 5; APB 22 par. 13]	____	____	____
2. Are the accounts of all majority-owned subsidiaries (except those for which control is likely to be temporary or does not rest with the majority owner) consolidated? [SFAS 94 par. 13]	____	____	____
3. If the financial reporting periods of any subsidiaries are different from that of the parent, are intervening events that materially affect financial position or results of operations disclosed? [ARB 51 par. 4]	____	____	____

Consolidation of Variable Interest Entities

4. Does the primary beneficiary of a variable interest entity disclose the following (unless the primary beneficiary also holds a majority voting interest):

a. The nature, purpose, size, and activities of the variable interest entity?	____	____	____
b. The carrying amount and classification of consolidated assets that are collateral for the variable interest entity's obligations?	____	____	____
c. Lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary? [FIN 46(R) par. 23]	____	____	____

5. Does an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary disclose:

[1] ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form. In addition, if the accumulated benefit information is presented as of the beginning of the plan year, prior year statements of net assets and changes therein are required. (Exhibit D-7 in appendix D of the guide illustrates the appropriate financial statement presentation when beginning-of-year benefit information is selected.) [AAG 2.07 fn 4, and 2.44]

	Yes	No	N/A
a. The nature of its involvement with the variable interest entity and when that involvement began?	_____	_____	_____
b. The nature, purpose, size, and activities of the variable interest entity?	_____	_____	_____
c. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity? [FIN 46(R) par. 24]	_____	_____	_____
6. Are disclosures required by FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125*, about a variable interest entity included in the same note to the financial statements as the information required by FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51*? [FIN 46(R) par. 25]	_____	_____	_____
7. If an entity does not apply FASB Interpretation No. 46(R) to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4(g) of FASB Interpretation No. 46(R), is the following information disclosed:			
a. The number of entities to which this interpretation is not being applied and the reason why the information required to apply this interpretation is not available?	_____	_____	_____
b. The nature, purpose, size (if available), and activities of the entity(ies) and the nature of the enterprise's involvement with the entity(ies)?	_____	_____	_____
c. The reporting enterprise's maximum exposure to loss because of its involvement with the entity(ies)?	_____	_____	_____
d. The amount of income, expense, purchases, sales, or other measure of activity between the reporting enterprise and the entity(ies) for all periods presented? (However, if it is not practicable to present that information for prior periods that are presented in the first set of financial statements for which this requirement applies, the information for those prior periods is not required.) [FIN 46(R) par. 26]	_____	_____	_____

Statement of Net Assets Available for Benefits

A. General

	Yes	No	N/A
1. Is the information in the "Statement of Net Assets Available for Benefits" presented in such reasonable detail as is necessary to identify the plan's resources that are available for benefits? [SFAS 35 par. 9]	_____	_____	_____

B. Investments

	Yes	No	N/A
1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or otherwise determined? [SFAS 35 par. 13; AAG 2.29]	_____	_____	_____

	Yes	No	N/A
2. Are the following investments reported as separate line items in the "Statement of Net Assets Available for Benefits":			
a. Government securities?	____	____	____
b. Short-term securities?	____	____	____
c. Corporate bonds?	____	____	____
d. Common stocks?	____	____	____
e. Mortgages?	____	____	____
f. Real estate?	____	____	____
g. Investments in bank common or collective trust funds?	____	____	____
h. Registered investment companies (for example, mutual funds)?	____	____	____
i. Master trusts?	____	____	____
j. Investments in contracts with insurance companies, including separate accounts, deposit administration, and immediate participation guarantee contracts? [AAG 2.30]	____	____	____

Practice Tips

FASB Statement No. 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts—an amendment of FASB Statement No. 35*, requires defined benefit pension plans to report investment contracts at fair value. Insurance contracts should continue to be reported at either fair value or at amounts determined by the insurance enterprise (contract value). FASB Statement No. 110 does not apply to deposit administration and immediate participation guarantee contracts entered into before March 20, 1992.

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, says that a contract that is accounted for under either paragraph 4 of FASB Statement No. 110, or paragraph 12 of FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by FASB Statement No. 110, is not subject to FASB Statement No. 133.

	Yes	No	N/A
3. For contracts with insurance companies that are included in plan assets, are restrictions on the use of the assets disclosed? [AAG 7.50*c*]	____	____	____
4. Are investments that represent 5 percent or more of total net assets available for benefits separately identified in the financial statements or notes thereto? [SFAS 35 par. 28g; AAG 2.50*g*]	____	____	____

Practice Tip

Listing all investments in Schedule H, line 4i—Schedule of Assets (Held at End of Year) required by ERISA does not eliminate the requirement to include this disclosure in the financial statements.
[AAG 2.50*g*]

Yes No N/A

5. Do disclosures include investments of a master trust detailed by general type, such as government securities, short-term securities, corporate bonds, common stocks, mortgages, and real estate, as of the date of each "Statement of Net Assets Available for Benefits" presented? [AAG 2.53] _____ _____ _____

6. Do disclosures include a description of the basis used to allocate net assets, net investment income, gains and losses to participating plans, and the plan's percentage interest in a master trust as of the date of each "Statement of Net Assets Available for Benefits?" [AAG 2.53] _____ _____ _____

C. Assets Held in 401(h) Account

1. Are the 401(h) net assets shown as a single line item on the face of the statement of net assets available for plan benefits? [SOP 99-2 par. 8 (ACC 10,780.08); AAG 2.60] _____ _____ _____

2. Do the notes to the financial statements disclose the nature of the assets related to the 401(h) account, and the fact that the assets are available only to pay retiree health benefits? [SOP 99-2 par. 13 (ACC 10,780.13); AAG 2.62] _____ _____ _____

D. Operating Assets

1. For depreciable assets, do the financial statements include disclosure of:
   a. Depreciation expense for each period? _____ _____ _____
   b. Balances of major classes of depreciable assets by nature or function? _____ _____ _____
   c. Accumulated depreciation, either by major classes of assets or in total? _____ _____ _____
   d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12 par. 5a–d] _____ _____ _____

2. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, paragraphs 25–27, 33, and 42–48?[2] [SFAS 144 par. 25–27, 33, and 42–48] _____ _____ _____

E. Contributions Receivable and Uncollectible Amounts

1. Are the following contributions receivable separately identified:
   a. Receivables from employer(s)? _____ _____ _____
   b. Receivables from participants? _____ _____ _____

[2] FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, establishes accounting and reporting for the impairment or disposal of long-lived assets to be held and used and assets to be disposed of. The required disclosures of FASB Statement No. 144 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined benefit pension plans however if the plan recognizes an impairment of long-lived assets please refer to FASB Statement No. 144 paragraphs 25–27, 33, and 42–48 for the disclosure requirements.

	Yes	No	N/A
c. Other sources of funding pursuant to formal commitments as well as legal or contractual requirements? [SFAS 35 par. 10; AAG 2.36]	_____	_____	_____
2. Do contributions receivable include an allowance for uncollectible amounts? [SFAS 35 par. 91; AAG 2.36]	_____	_____	_____

F. Cash

	Yes	No	N/A
1. Is separate disclosure made of restricted cash? [ARB 43 ch. 3A par. 6]	_____	_____	_____
2. Are restrictions on cash properly disclosed? [SFAS 5 par. 18]	_____	_____	_____

Practice Tip

The AICPA issued Technical Questions and Answers (TIS) section 1100.15, "Liquidity Restrictions" (AICPA, *Technical Practice Aids*), to discuss auditing and accounting issues related to withdrawal restrictions placed on short term investments by a money market fund or its trustee.

G. Liabilities

	Yes	No	N/A
1. Are liabilities other than for benefits (such as securities purchased, income taxes payable by the plan, and other expenses, for example, third-party administrator fees) deducted in arriving at net assets available for plan benefits? [AAG 2.41]	_____	_____	_____

Practice Tip

Benefit amounts should not be accrued as liabilities.
[AAG 2.41]

	Yes	No	N/A
2. Consider stating separately:			
a. Due to broker for securities purchased?	_____	_____	_____
b. Accounts payable?	_____	_____	_____
c. Accrued expenses? [AAG 2.41 and exhibits D-1, D-5, and D-9]	_____	_____	_____
3. Net assets related to the 401(h) account must be deducted before arriving at the total of net assets available for pension benefits:			
a. In deducting those net assets, are the amounts relating to 401(h) features presented as a separate line item in the liabilities section of the statement of net assets available for pension benefits?	_____	_____	_____
b. Does the financial statement caption clearly denote that the net assets held in the 401(h) account relate to obligations of the health and welfare plan or arrangement? [AAG 2.60; SOP 99-2 par. 8 (ACC 10,780.08)]	_____	_____	_____

	Yes	No	N/A

Statement of Changes in Net Assets Available for Benefits

A. General

1. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) present the net appreciation (depreciation) in the fair value of each significant type of investment, segregated between investments whose fair values have been measured by quoted market prices in an active market and those whose fair values have been otherwise determined? ____ ____ ____
[SFAS 35 par. 15; AAG 2.42*a*]

2. At a minimum, does the "Statement of Changes in Net Assets Available for Benefits" disclose:
   a. Investment income (exclusive of changes in fair value)? ____ ____ ____
   b. Contributions from employer(s), segregated between cash and noncash contributions? ____ ____ ____
   c. Contributions from participants, including those transmitted by the sponsor? ____ ____ ____
   d. Contributions from other sources (for example, state subsidies or federal grants)? ____ ____ ____
   e. Benefits paid to participants or beneficiaries? ____ ____ ____
   f. Payments to insurance companies to purchase contracts that are excluded from plan assets? ____ ____ ____
   g. Administrative expenses?
   h. Other changes? (For example, transfers of assets to or from other plans, if significant.) ____ ____ ____
   [SFAS 35 par. 15; AAG 2.42*b*–*h*; 2.43]

Practice Tip

Dividend income related to contracts with insurance companies that are excluded from plan assets may be netted against question 2*f*.
[SFAS 35 par. 28e and 15g fn 9]

B. Contributions

1. Is the nature of noncash contributions described, either parenthetically or in a footnote? ____ ____ ____
[SFAS 35 par. 15c fn 9; AAG 2.42*c*]

C. Investment Earnings

1. Does the net appreciation (depreciation) in the fair value of investments (see question A.1) include realized gains and losses on investments that were both bought and sold during the year?[3] ____ ____ ____
[SFAS 35 par. 15 fn 7]

[3] Gains and losses from investments sold need not be segregated from unrealized gains and losses relating to investments held at year-end. [AAG 2.42*a*]

	Yes	*No*	*N/A*
2. Is the net change in the fair value of each significant type of investment of a master trust and total investment income of the master trust by type (for example, interest and dividends) disclosed for each period for which a "Statement of Changes in Net Assets Available for Benefits" is presented? [AAG 2.53]	_____	_____	_____

D. 401(h) Account Assets

1. Does the statement of changes in net assets available for plan benefits:			
a. Show only the changes in net assets of the pension plan and not any of the components of the changes in the net assets in the 401(h) account?	_____	_____	_____
b. Reflect only qualified transfers to the 401(h) account or any unused or unspent amounts (including allocated income), or both, in the 401(h) account at the end of the year that were qualified transfers of excess pension plan assets that should have been but were not transferred back to the defined benefit pension plan? [SOP 99-2 par. 8 (ACC 10,780.08); AAG 2.60]	_____	_____	_____

E. Transfer of Assets to or From Other Plans

1. If there are significant transfers of assets to or from other plans, are they disclosed? [AAG 2.43]	_____	_____	_____

Statement of Accumulated Plan Benefits

Practice Tip

The benefit information may be presented in a separate statement, combined with other information in the financial statements, or presented in a note to the financial statements. Regardless of the presentation, the benefit information should all be located in one place.
[AAG 2.47]

A. Actuarial Present Value of Accumulated Plan Benefits

1. Is the total actuarial present value of accumulated plan benefits as of the benefit information date segmented into at least the following categories:			
a. Vested benefits of participants currently receiving payments?	_____	_____	_____
b. Other vested benefits?	_____	_____	_____
c. Nonvested benefits? [SFAS 35 par. 22; AAG 2.47]	_____	_____	_____
2. Does the amount disclosed as vested benefits of participants currently receiving payments include those benefits due and payable as of the benefit information date? [SFAS 35 par. 22]	_____	_____	_____

	Yes	No	N/A
3. Does information regarding accumulated plan benefits relate only to pension obligations and not to retiree health benefits, even in situations where separate financial statements are not prepared for the health and welfare benefit plan? [SOP 99-2 par. 9 (ACC 10,780.09); AAG 2.61]	_____	_____	_____
B. Accumulated Contributions of Present Employees			
1. If the plan is contributory, is the amount of active employees' accumulated contributions as of the benefit information date (including interest, if any) disclosed? [SFAS 35 par. 22; AAG 2.47]	_____	_____	_____
2. If interest has been credited on employees' contributions, is the rate(s) disclosed? [SFAS 35 par. 22; AAG 2.47]	_____	_____	_____

Statement of Changes in Accumulated Plan Benefits

Practice Tip

The changes in accumulated plan benefits may be presented in a separate statement or presented in the notes to the financial statements in either reconciliation or narrative format.
[AAG 2.48]

	Yes	No	N/A
A. Presentation of Changes in the Actuarial Present Value of Accumulated Plan Benefits			
1. If significant, is information disclosed regarding the effects of certain factors affecting the change in the actuarial present value of accumulated plan benefits from the preceding to the current benefit information date? [SFAS 35 par. 25; AAG 2.48]	_____	_____	_____
2. At a minimum, do disclosures include the significant effects of such factors as:			
a. Plan amendments?	_____	_____	_____
b. Changes in the nature of the plan (for example, as a result of a spin-off or merger)?	_____	_____	_____
c. Changes in actuarial assumptions?[4]	_____	_____	_____
3. Are the significant effects of other factors identified, such as:			
a. Benefits accumulated?	_____	_____	_____
b. The increase (for interest) as a result of the decrease in the discount period?	_____	_____	_____
c. Benefits paid? [SFAS 35 par. 25]	_____	_____	_____

[4] Changes in actuarial assumptions are to be viewed as changes in accounting estimates, and therefore previously reported amounts should not be restated. [AAG 2.47]

	Yes	No	N/A
4. If any one factor is individually significant, is that factor separately disclosed? [SFAS 35 par. 25]	____	____	____

Practice Tip

Actuarial experience gains or losses may be included with the effects of additional benefits accumulated rather than being separately disclosed.
[SFAS 35 par. 25 fn 12]

B. Changes in Actuarial Assumptions

1. For plans that measure the actuarial present value of accumulated plan benefits by insurance company rates pursuant to the approach described in paragraph 21 of SFAS 35, are the effects of the changes in actuarial assumptions reflected in changes in those insurance rates disclosed, if practicable? [SFAS 35 par. 25 fn 11]	____	____	____
2. If the effects of changes in actuarial assumptions discussed in question 1 cannot be separately disclosed, are those effects included in benefits accumulated? [SFAS 35 par. 25 fn 12]	____	____	____

C. Benefits Paid and Other

1. Are amounts paid by the plan to an insurance company pursuant to a contract that is excluded from plan assets (including the purchase of annuities with amounts allocated from existing investments with the insurance company) included in benefits paid? [SFAS 35 par. 25]	____	____	____
2. In presenting the changes in the actuarial present value of accumulated plan benefits, if only the minimum required disclosure is presented and a *statement format* is used, is an additional *other* category used to reconcile the beginning and ending amounts?[5] [SFAS 35 par. 25–26; AAG 2.48]	____	____	____

Summary of Significant Accounting Policies

A. Accounting Policies

1. Is a description of all significant accounting policies of the pension plan presented as either a separate *summary of significant accounting policies* preceding the notes to the financial statements or as the initial note? [APB 22 par. 15]	____	____	____

2. Does the disclosure of significant accounting policies identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position and results of operations, including instances in which there:

[5] If the minimum required disclosure is presented in other than a statement format, the actuarial present value of accumulated plan benefits as of the preceding benefit information date should be presented. [SFAS 35 par. 25]

	Yes	No	N/A
a. Is a selection from existing acceptable alternatives?	____	____	____
b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?	____	____	____
c. Are unusual or innovative applications of GAAP? [APB 22 par. 12]	____	____	____
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22 par. 14]	____	____	____
4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? [SOP 94-6 par. 11 (ACC 10,640.11); FSP SOP 94-6-1 par. 10]	____	____	____
5. Does the disclosure of significant accounting policies include a description of the method(s) and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? [SFAS 35 par. 27a; AAG 2.49]	____	____	____
6. Does the disclosure of significant accounting policies include a description of the method and significant assumptions (for example, assumed rates of return, inflation rates, and retirement ages) used to determine the actuarial present value of accumulated plan benefits, including any significant changes in the method or assumptions during the year? [SFAS 35 par. 27b; AAG 2.49]	____	____	____
7. If administrative expenses expected to be paid by the plan (not those paid by the sponsor) that are associated with providing accumulated plan benefits are reflected by appropriately adjusting the assumed rates of return, is the adjustment of the assumed rates of return disclosed separately? [SFAS 35 par. 20c]	____	____	____

B. Certain Significant Estimates

	Yes	No	N/A
1. If known information available before the financial statements are issued indicates that *(a)* it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and *(b)* the effect of the change would be material to the financial statements:			
a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	____	____	____
b. If the estimate involves a loss contingency covered by SFAS 5, *Accounting for Contingencies*, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?	____	____	____

	Yes	No	N/A

c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? ____ ____ ____
[SOP 94-6 par. 13–14 (ACC 10,640.13–.14); FSP SOP 94-6-1 par. 10–11; AAG 2.65]

Other Financial Statement Disclosures

A. Accounting Changes and Error Corrections

Change in Accounting Principle

1. Is the following disclosed in the fiscal period in which a change in accounting principle is made:

   a. The nature of and reason for the change in accounting principle, including an explanation of why the newly adopted accounting principle is preferable? ____ ____ ____

   b. The method of applying the change, and:

   (1) A description of the prior-period information that has been retrospectively adjusted, if any? ____ ____ ____

   (2) The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted? Presentation of the effect on financial statement subtotals and totals other than income from continuing operations and net income (or other appropriate captions of changes in the applicable net assets or performance indicator) is not required. ____ ____ ____

   (3) The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented? ____ ____ ____

   (4) If retrospective application to all prior periods (paragraph 7 of FASB Statement No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*) is impracticable, disclosure of the reasons therefore, and a description of the alternative method used to report the change (paragraphs 8–9 of FASB Statement No. 154)? ____ ____ ____

   c. If indirect effects of a change in accounting principle are recognized:

   (1) A description of the indirect effects of a change in accounting principle, including the amounts that have been recognized in the current period, and the related per-share amounts, if applicable? ____ ____ ____

   (2) Unless impracticable, the amount of the total recognized indirect effects of the accounting change and the related per-share amounts, if applicable, that are attributable to each prior period presented? ____ ____ ____
   [SFAS 154 par. 17]

Yes *No* *N/A*

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.
[SFAS 154 par. 17]

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2. If a change in accounting principle has no material effect in the period of change but is reasonably certain to have a material effect in later periods, are the disclosures required by question 1*a* provided whenever the financial statements of the period of change are presented? ____ ____ ____
[SFAS 154 par. 17]
3. In the fiscal year in which a new accounting principle is adopted, does financial information reported for interim periods after the date of adoption include disclosure of the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and related per-share amounts, if applicable, for those postchange interim periods? ____ ____ ____
[SFAS 154 par. 18]

Change in Accounting Estimate

4. Is the effect on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and any related per-share amounts of the current period disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets? Disclosure of those effects is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, if the effect of a change in the estimate is material, is it disclosed? ____ ____ ____
5. When an entity effects a change in estimate by changing an accounting principle, are the disclosures required by questions 1–3 made? ____ ____ ____
6. If a change in estimate does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, is a description of that change in estimate disclosed whenever the financial statements of the period of change are presented? ____ ____ ____
[SFAS 154 par. 22]

Change in the Reporting Entity

7. When there has been a change in the reporting entity, do the financial statements of the period of the change describe the nature of the change and the reason for it? ____ ____ ____
   a. Is the effect of the change on income before extraordinary items, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), other comprehensive income, and any related per-share amounts disclosed for all periods presented? ____ ____ ____
   [SFAS 154 par. 24]

Yes | No | N/A

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.
[SFAS 154 par. 24]

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8. If a change in reporting entity does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, is the nature of and reason for the change disclosed whenever the financial statements of the period of change are presented? ____ ____ ____
[SFAS 154 par. 24]

Note: Paragraphs 51–58 of FASB Statement No. 141, *Business Combinations*, as amended, describe the manner of reporting and the disclosures required for a business combination.
[SFAS 154 par. 24]

Correction of an Error in Previously Issued Financial Statements

9. When financial statements are restated to correct an error, does the plan disclose that its previously issued financial statements have been restated, along with a description of the nature of the error? Does the plan also disclose the following: ____ ____ ____
   a. The effect of the correction on each financial statement line item and any per-share amounts affected for each prior period presented? ____ ____ ____
   b. The cumulative effect of the change on retained earnings or other appropriate components of equity or net assets in the statement of financial position, as of the beginning of the earliest period presented? ____ ____ ____
10. In addition to question 9, does the plan make the disclosures of prior-period adjustments and restatements required by paragraph 26 of APB 9, *Reporting the Results of Operations?* ____ ____ ____
[SFAS 154 par. 26]
11. In addition, does the plan make the disclosures of prior-period adjustments and restatements required by paragraph 26 of APB 9?
   a. The effects, in total and by class, of the correction on change in net assets for each of the periods presented? ____ ____ ____
   b. For single period financial statements, the effects, in total and by class, of the correction on change in net assets of the preceding year? ____ ____ ____
   [SFAS 154 par. 26; APB 9 par. 26]

Yes No N/A

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph. An entity that issues interim financial statements shall provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change.
[SFAS 154 par. 26]

B. Commitments and Contingencies ***(See also section G, "Guarantees")***

1. Is disclosure made of the nature of estimated loss contingencies accrued when *(a)* information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and *(b)* the amount of loss can be reasonably estimated? ____ ____ ____
[SFAS 5 par. 9]
2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in question 1 disclosed? ____ ____ ____
[SFAS 5 par. 9]
3. For loss contingencies not accrued because one or both of the conditions in question 1 are not met or if an exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures indicate:
   a. Nature of the contingency? ____ ____ ____
   b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? ____ ____ ____
   [SFAS 5 par. 10]
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? ____ ____ ____
[SFAS 5 par. 17]
5. Are the nature and amount of any guarantees (for example, guarantees of indebtedness of others) disclosed even though the possibility of loss may be remote? ____ ____ ____
[SFAS 5 par. 12]
6. Is there adequate disclosure of commitments, such as those for capital expenditures, restrictive covenants in financing agreements, and employment contracts? ____ ____ ____
[SFAS 5 par. 18–19]

	Yes	No	N/A

C. Current Vulnerability Due to Certain Concentrations

Notes: The guidance in FSP SOP 94-6-1, *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk*, is effective for interim and annual periods ending after December 19, 2005. An entity shall provide the disclosures required by FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, for products that are determined to represent a concentration of credit risk in accordance with the guidance in question 1 of the FSP for all periods presented.
[FSP SOP 94-6-1 par. 17]

Question 2 of the FSP references only existing effective literature; therefore, no effective date or transition guidance is required.
[FSP SOP 94-6-1 par. 18]

The type and extent of information provided shall be determined by whether the entity is the originator, holder, investor, guarantor, or servicer and also by the significance of the loan product(s) to the reporting entity.
[FSP SOP 94-6-1 par. 9 (question 2)]

1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, *(a)* the concentration existed at the date of the financial statements, *(b)* made the plan vulnerable to the risk of a near-term severe impact, and *(c)* it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? ___ ___ ___
   [SOP 94-6 par. 21–22 (ACC 10,640.21–.22); FSP SOP 94-6-1 par. 10–11; AAG 2.66]
2. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside the reporting entity's home country that (*a*) exist at the date of the financial statements and (*b*) make the reporting entity vulnerable to the risk of a near-term severe impact, where it is at least reasonably possible that the events that could cause the severe impact will occur in the near term, are the following disclosed:
   a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year? ___ ___ ___
   b. For operations located outside the reporting entity's home country, the carrying amounts of net assets and the geographic areas in which they are located? ___ ___ ___
   [SOP 94-6 par. 24 (ACC 10,640.24); FSP SOP 94-6-1 par. 10–11]
3. Are major categories of loans, including unusual risk concentrations disclosed, such as:

	Yes	No	N/A
a. Commercial, financial, and agricultural?	____	____	____
b. Real estate construction?	____	____	____
c. Real estate mortgage?	____	____	____
d. Installment loans to individuals?	____	____	____
e. Lease financing?	____	____	____
f. Foreign?	____	____	____
g. Loans in process?	____	____	____
h. Other? [FSP SOP 94-6-1 par. 11]	____	____	____
4. Are major concentrations of loan products whose contractual features may increase credit risk disclosed, such as:			
a. Negative amortization?	____	____	____
b. Loans with a high loan-to-value ratio?	____	____	____
c. Multiple loans on the same collateral that when combined, result in a high loan-to-value ratio?	____	____	____
d. Option ARMS or similar products that may expose the borrower to future increases in repayments?	____	____	____
e. An initial interest rate that is below the market interest rate for the initial period of a loan term and that may increase significantly when that period ends?	____	____	____
f. Interest only loans? [FSP SOP 94-6-1 par. 2 and 7; SFAS 107 par. 15A]	____	____	____
5. Are foreign loans, foreign nonaccrual loans, and foreign operations, if any of these foreign activities exceed a material percentage of activities, disclosed? [FSP SOP 94-6-1 par. 7; SFAS 107 par. 15A]	____	____	____

D. Description of Pension Plan

	Yes	No	N/A
1. Do disclosures include a brief, general description of the plan agreement, including its vesting and benefit provisions? [SFAS 35 par. 28a; AAG 2.50*a* and fn 8; SOP 94-6 par. 10 (ACC 10,640.10); FSP SOP 94-6-1 par. 10]	____	____	____

Practice Tip

If material providing this information is otherwise published and made available to participants (for example, employee handbook), the disclosures required by FASB Statement No. 35 paragraph 28a and c can be omitted provided that (1) a reference to the other source is made and (2) for paragraph 28c only, disclosure similar to that stated in SFAS 35 is made. Refer to FASB Statement No. 35 paragraph 28c footnote 16 for appropriate wording.
[AAG 2.50*a* fn 8]

	Yes	No	N/A
2. For ERISA plans, does the plan description include the priority order of participants' claims to the assets of the plan upon plan termination and the benefits guaranteed by the PBGC? [SFAS 35 par. 28c; AAG 2.50*c*]	____	____	____

	Yes	No	N/A
E. Description of Pension Plan Amendments			
1. Do disclosures include a description of significant plan amendments adopted during the year? [SFAS 35 par. 28b; AAG 2.50*b*]	____	____	____
2. If significant plan amendments were adopted after the date of the accumulated benefit information, and accordingly their effect was not included in the calculation, is this fact stated? [SFAS 35 par. 28b; AAG 2.50*b*]	____	____	____

Practice Tip

If material providing this information is otherwise published and made available to participants (for example, employee handbook), the disclosure required by FASB Statement No. 35 paragraph 28c can be omitted provided that (1) a reference to the other source is made and (2) disclosure similar to that stated in FASB Statement No. 35 is made. Refer to FASB Statement No. 35 paragraph 28c footnote 16 for appropriate wording.

F. Financial Instruments

Notes: FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*, amends FASB Statement No. 133 by requiring enhanced disclosures about an entity's derivative and hedging activities in order to improve the transparency of financial reporting. FASB Statement No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. FASB Statement No. 161 also encourages comparative disclosures at initial adoption.

FASB Statement No. 133, as amended by FASB Statement No. 149, says that a contract that is accounted for under either paragraph 4 of FASB Statement No. 110 or paragraph 12 of FASB Statement No. 35, as amended, is not subject to FASB Statement No. 133. This exception applies only to the party that accounts for the contract under FASB Statement No. 35 or FASB Statement No. 110.

In September 2008, FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. This FSP amends FASB Statement No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34*, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. This FSP clarifies the board's intent that the disclosures required by FASB Statement No. 161 should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008. This clarification was effective upon issuance of the FSP. The provisions of this FSP that amend FASB Statement No. 133 and FASB Interpretation No. 45 shall be effective for

(continued)

Yes No N/A

reporting periods (annual or interim) ending after November 15, 2008. This FSP encourages that the amendments to FASB Statement No. 133 and FASB Interpretation No. 45 be applied in periods earlier than the effective date to facilitate comparisons at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending subsequent to initial adoption.

Plans that have not adopted FASB Statement No. 161 and FSP FAS 133-1 and FIN 45-4 should complete this section (section F). Plans that have adopted FASB Statement No. 161 and FSP FAS 133-1 and FIN 45-4 should complete section F1, "Financial Instruments (With SFAS 161 and FSP FAS 133-1 and FIN 45-4)."

Derivative Instruments and Hedging Activities

1. If a plan holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of FASB Statement No. 133, as amended) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives? ____ ____ ____
2. Does the description distinguish between derivative instruments (and nonderivative instruments) designated as fair value hedging instruments, derivative instruments (and nonderivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives? ____ ____ ____
3. Does the description also indicate the plan's risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged? ____ ____ ____
4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity? ____ ____ ____
5. Qualitative disclosures about a plan's objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of a plan's overall risk management profile. If appropriate, a plan is ***encouraged, but not required***, to provide such additional qualitative disclosures. Have such disclosures been made? ____ ____ ____
[SFAS 133 par. 44]
6. For every reporting period for which a complete set of financial statements is presented, has the plan disclosed the following:

   Fair Value Hedges

   a. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under FASB Statement No. 52, *Foreign Currency Translation*, that have been designated and have qualified as fair value hedging instruments and for the related hedged items:

	Yes	No	N/A
(1) The net gain or loss recognized in the investment income during the reporting period representing *(a)* the amount of the hedges' ineffectiveness and *(b)* the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of changes in net assets available for benefits?	____	____	____
(2) The amount of net gain or loss recognized in investment income when a hedged firm commitment no longer qualifies as a fair value hedge? [SFAS 133 par. 45a]	____	____	____

Hedges of the Net Investment in a Foreign Operation

	Yes	No	N/A
b. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains and losses under FASB Statement No. 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period? [SFAS 133 par. 45c]	____	____	____
7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? (***Encouraged but not required.***) [SFAS 133 par. 45]	____	____	____

Disclosures About Fair Value of Financial Instruments

	Yes	No	N/A
8. Have the disclosure requirements of paragraphs 10–14 of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, as amended by FASB Statement No. 157, *Fair Value Measurements*, been followed for financial instruments of the plan? [SFAS 107, as amended by SFAS 157 par. 10–14; AAG 2.54–.55]	____	____	____

Disclosure About Concentrations of Credit Risk of All Financial Instruments

	Yes	No	N/A
9. Except as indicated in paragraph 15B[6] of FASB Statement No. 107, has the plan disclosed all significant concentrations of credit risk arising from *all* financial instruments, whether from an individual counterparty or groups of counterparties *(Group concentrations* of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? [SFAS 107 par. 15A, as amended by SFAS 161; SFAS 133 par. 531d]	____	____	____

[6] FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, paragraph 15B, provides that these disclosure require-

Yes No N/A

10. Has the plan made the following disclosures about each significant concentration:
    - *a.* Information about the (shared) activity, region, or economic characteristic that identifies the concentration? ____ ____ ____
    - *b.* The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan? ____ ____ ____
    - *c.* The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? ____ ____ ____
    - *d.* The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk? ____ ____ ____
      [SFAS 107 par. 15A, as amended by SFAS 161;[7] SFAS 133 par. 531d; AAG 2.55]
11. Has the plan disclosed quantitative information[8] about the market risks of financial instruments that is consistent with he way it manages or adjusts those risks? (***Encouraged but not required.***) ____ ____ ____
    [SFAS 107 par. 15C, as amended; SFAS 133 par. 531d]

F1. Financial Instruments (with SFAS 161 and FSP FAS 133-1 and FIN 45-4)

Notes: Plans that have adopted FASB Statement No. 161 and FSP 133-1 and FIN 45-4 should complete this section (section F1). Plans that have not adopted FASB Statement No. 161 and FSP 133-1 and FIN 45-4 should complete section F, "Financial Instruments."

FASB Statement No. 161 amends FASB Statement No. 133 by requiring *(continued)*

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ments do not apply to the following financial instruments, whether written or held:

1. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of FASB Statement No. 87, *Employers' Accounting for Pensions*, as amended (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15A).
2. The financial instruments described in paragraphs 8a, 8c, and 8f of FASB Statement No. 107, as amended (except for reinsurance receivables and prepaid reinsurance premiums).

[7] The term *financial instruments* includes derivative instruments accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

[8] Appropriate ways of reporting the quantitative information encouraged will differ for different plans and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing *(a)* more details about current positions and perhaps activity during the period, *(b)* the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, *(c)* a gap analysis of interest rate repricing or maturity dates, *(d)* the duration of the financial instruments, or *(e)* the plan's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and a plan is encouraged to develop other ways of reporting quantitative information.

	Yes	No	N/A

enhanced disclosures about an entity's derivative and hedging activities in order to improve the transparency of financial reporting.

FSP 133-1 and FIN 45-4 amends FASB Statement No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FASB Interpretation No. 45 to require an additional disclosure about the current status of the payment/performance risk of a guarantee. This FSP clarifies the board's intent that the disclosures required by FASB Statement No. 161 should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008. This clarification was effective upon issuance of the FSP. The provisions of this FSP that amend FASB Statement No. 133 and FASB Interpretation No. 45 shall be effective for reporting periods (annual or interim) ending after November 15, 2008. This FSP encourages that the amendments to FASB Statement No. 133 and FASB Interpretation No. 45 be applied in periods earlier than the effective date to facilitate comparisons at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending subsequent to initial adoption.

1. Does the plan disclose the following information about derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of FASB Statement No. 133, as amended)
   a. Its objectives for holding or issuing those instruments? _____ _____ _____
   b. The context needed to understand those objectives? _____ _____ _____
   c. Its strategies for achieving those objectives? _____ _____ _____
2. Is the information about the instruments disclosed in the context of each instrument's primary underlying risk exposure (for example, interest rate, credit, foreign exchange rate, interest rate and foreign exchange rate, or overall price? _____ _____ _____
3. Does the description of those instruments also distinguished between those used for risk management purposes and those used for other purposes?[9] _____ _____ _____
4. For derivative instruments designated as hedging instruments, does the description distinguish between derivatives designated as fair value hedging instruments, derivative instruments designated as cash flow hedging instruments, and derivative instruments designated as hedging instruments of the foreign currency exposure in a net investment in a foreign operation? _____ _____ _____
5. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity? _____ _____ _____
6. Does the plan disclose information that enables users of its financial statements to understand the volume of its derivative activity? _____ _____ _____

[9] ***Note***: Derivative instruments used for risk management purposes include those designated as hedging instruments as well as those used as economic hedges and for other purposes related to the plan's risk exposure.

	Yes	No	N/A
7. Did the plan consider providing additional qualitative disclosures about its overall risk exposures relating to interest rate risk, foreign currency exchange rate risk, commodity price risk, credit risk, and equity price risk? Those additional qualitative disclosures, if made, should include a discussion of those exposures even though the plan does not manage some of those exposures by using derivative instruments. [SFAS 133 par. 44, as amended by SFAS 161 par. 3a]	____	____	____
8. For every annual and interim reporting period for which a statement of net assets available for benefits and a statement of changes in net assets available for benefits is presented, does the plan disclose the location and fair value amounts of derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of FASB Statement No. 133) in a tabular format that provides			
a. the fair value on a gross basis, even when the derivative instruments are subject to master netting arrangements and qualify for net presentation in accordance with FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts* (cash collateral payables and receivables associated with the derivative instruments are not added to or netted against the fair value amounts)?	____	____	____
b. fair value amounts presented as separate asset and liability values segregated between derivatives that are designated and qualifying as hedging instruments and those that are not?	____	____	____
c. within each of the aforementioned categories, are fair value amounts presented separately by type of derivative contract (such as interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, or other contracts)?	____	____	____
d. does the disclosure identify the line item(s) in the statement of net assets available for benefits in which the fair value amounts for these categories of derivative instruments are included?	____	____	____
9. Does the plan disclose the location and amount of the gains and losses reported in the statement of changes in net assets available for benefits for derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of FASB Statement No. 133) in tabular format? Are the gains and losses presented separately for			
a. derivative instruments designated and qualifying as hedging instruments in fair value hedges and related hedged items designated and qualifying in fair value hedges? (***Note:*** The information about hedged items in this step can be presented in tabular or nontabular format.)	____	____	____
b. the effective portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges that was recognized in investment income during the current period?	____	____	____

	Yes	*No*	*N/A*
c. the effective portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges recorded in investment income during the term of the hedging relationship?	____	____	____
d. the portion of gain and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges representing (1) the amount of the hedges' ineffectiveness and (2) the amount, if any, excluded from the assessment of hedge effectiveness?	____	____	____
e. derivative instruments not designated or qualifying as hedging instruments?	____	____	____
10. Do the disclosures in the preceding question 9 present information separately by type of derivative contract (for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, and credit contracts), and do they identify the line items in the statement of changes in net assets available for benefits in which the gains and losses for these categories of derivative instruments are included?	____	____	____
11. If the plan excludes derivative instruments not designated or qualifying as hedging instruments from the disclosures in question 9, has it disclosed the following for those excluded instruments:			
a. The gains and losses on its trading activities (including both derivative and nonderivative instruments) recognized in the statement of changes in net assets available for benefits, separately by major types of items (for example, fixed income or interest rates, foreign exchange, equity, commodity, and credit)?	____	____	____
b. The line items in the statement of changes in net assets available for benefits in which trading activities gains and losses are included?	____	____	____
c. A description of the nature of its trading activities and related risks and how the plan manages those risks?	____	____	____
12. Does the plan disclose the following information about derivative instruments it holds and issues (or nonderivative instruments it holds and issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of FASB Statement No. 133) for every annual and interim reporting period for which a statement of net assets available for benefits and a statement of changes in net assets available for benefits is presented?			
a. The existence and nature of credit-risk-related contingent features and the circumstances in which the features could be triggered in derivative instruments that are in a net liability position at the financial statement date?	____	____	____
b. The aggregate fair value amounts of derivative instruments that contain credit-risk related contingent features that are in a net liability position at the end of the reporting period?	____	____	____

Yes No N/A

c. The aggregate fair value of assets that are already posted as collateral at the financial statement date and (1) the aggregate fair value of additional assets that would be required to be posted as collateral or (2) the aggregate fair value of assets needed to settle the instrument immediately, if the credit-risk-related contingent features were triggered at the financial statement date? _____ _____ _____

13. If the plan is a seller of credit derivatives (as defined in par 44DD of FASB Statement No. 133 as amended by FSP FAS 133-1 and FIN 45-4), does it disclose the following information about its credit derivatives and hybrid instruments that have embedded credit derivatives for each statement of net assets available for benefits:
(*Note*: The term *seller* refers to the party that assumes credit risk, which could be a guarantor in a guarantee type contract, and any party that provides the credit protection in an option type contract, a credit default swap, or any other credit derivative contract. A seller is also sometimes referred to as a writer of the contract.)

a. The nature of the credit derivative, including the approximate term of the credit derivative, the reason(s) for entering into the credit derivative, the events or circumstances that would require the seller to perform under the credit derivative, and the current status (that is, as of the date of the statement of net assets available for benefits) of the payment/performance risk of the credit derivative? _____ _____ _____

b. The maximum potential amount of future payments (undiscounted) the seller could be required to make under the credit derivative?

(1) That maximum potential amount of future payments shall not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the credit derivative (which are addressed under 13*d*). _____ _____ _____

(2) If the terms of the credit derivative provide for no limitation to the maximum potential future payments under the contract, that fact shall be disclosed. _____ _____ _____

(3) If the seller is unable to develop an estimate of the maximum potential amount of future payments under the credit derivative, the seller shall disclose the reasons why it cannot estimate the maximum potential amount. _____ _____ _____

c. The fair value of the credit derivative as of the date of the statement of financial position? _____ _____ _____

d. The nature of

(1) any recourse provisions that would enable the seller to recover from third parties any of the amounts paid under the credit derivative, and _____ _____ _____

(2) any assets held either as collateral or by third parties that, upon the occurrence of any specified triggering event or condition under the credit derivative, the seller can obtain and liquidate to recover all or a portion of the amounts paid under the credit derivative? _____ _____ _____

Yes *No* *N/A*

e. Does the plan, as the seller of the credit derivative, indicate, if estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the credit derivative? ____ ____ ____

f. In its estimate of potential recoveries, does the seller of credit protection consider the effect of any purchased credit protection with identical underlying(s)? ____ ____ ____

g. With respect to hybrid instruments that have embedded credit derivatives, does the seller of the embedded credit derivative disclose the required information for the entire hybrid instrument, not just the embedded credit derivatives? ____ ____ ____

h. For each statement of net assets available for benefits presented, does the seller of a credit derivative disclose the required information for each credit derivative, or each group of similar credit derivatives, even if the likelihood of the seller having to make any payments under the credit derivative is remote? ____ ____ ____

i. Are the required disclosures for groups of similar credit derivatives

(1) segregated by major types of contracts (for example, single-name credit default swaps, traded indexes, other portfolio products, and swaptions), and, then, ____ ____ ____

(2) for each major type, by additional subgroups for major types of referenced/underlying asset classes (for example, corporate debt, sovereign debt, and structured finance)? ____ ____ ____

(Encouraged but not required)

14. If the information on derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of FASB Statement No. 133) is disclosed in more that a single footnote, has the plan cross-referenced from the derivative footnote to other footnotes in which derivative-related information is disclosed? ____ ____ ____
[SFAS 133 par. 44c–e, as amended by SFAS 161 par. 3b and FSP FAS 133-1 and FIN 45-4 par. A1]

Fair Value Hedges

15. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under FASB Statement No. 52 that have been designated and have qualified as fair value hedging instruments and for the related hedged items, has the following been disclosed:

a. The net gain or loss recognized in the investment income during the reporting period representing (1) the amount of the hedges' ineffectiveness and (2) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness? ____ ____ ____

Yes No N/A

b. The amount of net gain or loss recognized in investment income when a hedged firm commitment no longer qualifies as a fair value hedge? ____ ____ ____
[SFAS 133 par. 45a, as amended by SFAS 161]

16. The quantitative disclosures about derivative instruments may be more useful and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? ***(Encouraged but not required.)*** ____ ____ ____
[SFAS 133 par. 45, as amended by SFAS 161]

Disclosures About Fair Value of Financial Instruments

17. Have the disclosure requirements of paragraphs 10–14 of FASB Statement No. 107, as amended by FASB Statement No. 157, been followed for financial instruments of the plan? ____ ____ ____
[SFAS 107, as amended by SFAS 157 par. 10–14; AAG 2.54–.55]

Disclosure About Concentrations of Credit Risk of All Financial Instruments

18. Except as indicated in paragraph 15b[10] of FASB Statement No. 107, has the plan disclosed all significant concentrations of credit risk arising from *all* financial instruments, whether from an individual counterparty or groups of counter-parties (*group concentrations* of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? ____ ____ ____
[SFAS 107 par. 15a, as amended by SFAS 161; SFAS 133 par. 531d]

19. Has the plan made the following disclosures about each significant concentration:

a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration? ____ ____ ____

b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan? ____ ____ ____

[10] FASB Statement No. 107 paragraph 15b provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

1. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of FASB Statement No. 87, as amended (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of FASB Statement No. 35, are subject to the reporting of paragraph 15a).
2. The financial instruments described in paragraphs 8a, 8c, and 8f of FASB Statement No. 107, as amended (except for reinsurance receivables and prepaid reinsurance premiums).

	Yes	No	N/A
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	____	____	____
d. The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk? [SFAS 107 par. 15a, as amended by SFAS 161;[11] SFAS 133 par. 531d]	____	____	____
20. Has the plan disclosed quantitative information[12] about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? ***(Encouraged but not required.)*** [SFAS 107 par. 15c, as amended; SFAS 133 par. 531d]	____	____	____

G. Guarantees

	Yes	No	N/A
1. Is the following information disclosed by a guarantor about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor's having to make any payments under the guarantee is remote:			
a. The nature of the guarantee, including the approximate term, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee and the current status (that is, as of the date of the statement of financial position) of the payment/performance risk of the guarantee?	____	____	____
b. The maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee?	____	____	____
c. If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, is that fact disclosed?	____	____	____
d. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, is the reasons why the maximum potential amount cannot be estimated disclosed?	____	____	____

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[11] The term *financial instruments* includes derivative instruments accounted for under FASB Statement No. 133.

[12] Appropriate ways of reporting the quantitative information encouraged will differ for different plans and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (*a*) more details about current positions and perhaps activity during the period, (*b*) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (*c*) a gap analysis of interest rate repricing or maturity dates, (*d*) the duration of the financial instruments, or (*e*) the plan's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and a plan is encouraged to develop other ways of reporting quantitative information.

	Yes	No	N/A
e. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, including the amount, if any, recognized under FASB Statement No. 5, *Accounting for Contingencies*, paragraph 8, regardless of whether the guarantee is freestanding or embedded in another contract?	____	____	____
f. The nature of			
(1) any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee? and	____	____	____
(2) any assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover all or a portion of the amounts paid under the guarantee?	____	____	____
g. If estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the guarantee? [FIN 45 par. 13, as amended by FSP FAS 133-1 and FIN 45-4 par. A2]	____	____	____
2. For product warranties and other guarantee contracts that are excluded from the initial recognition and initial measurement requirements of FASB Interpretation No. 45 pursuant to paragraph 7(b) of FASB Interpretation No. 45 (collectively referred to as product warranties), is the following information disclosed:			
a. The guarantor's accounting policy and methodology used in determining its liability for product warranties (including any liability associated with extended warranties)?	____	____	____
b. A tabular reconciliation of the changes in the guarantor's aggregate product warranty liability for the reporting period?	____	____	____
c. Does the tabular reconciliation present			
(1) The beginning balance of the aggregate product warranty liability?	____	____	____
(2) The aggregate reductions in that liability for payments made (in cash or in kind) under the warranty?	____	____	____
(3) The aggregate changes in the liability for accruals related to product warranties issued during the reporting period, and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates?	____	____	____
(4) The ending balance of the aggregate product warranty liability? [FIN 45 par. 14]	____	____	____
3. Are the disclosure requirements in paragraphs 13–14 of FASB Interpretation No. 45 complied with for the intellectual property infringement indemnifications as described in FSP FIN 45-1, *Accounting for Intellectual Property Infringement Indemnifications under FASB Interpretation No. 45*? [FSP 45-1]	____	____	____

	Yes	No	N/A
4. Are the disclosure requirements in paragraphs 13–16 of FASB Interpretation No. 45 applied to all minimum revenue guarantees in financial statements of interim or annual periods ending after the beginning of the first fiscal quarter following November 10, 2005, the date that the final FSP was posted to the FASB Web site? Thus, the disclosure requirements in paragraphs 13–16 should be applied to any minimum revenue guarantees issued prior to the initial application of the FSP, regardless of whether those guarantees were recognized and measured under FASB Interpretation No. 45. [FSP FIN 45-3 par. 7]	_____	_____	_____

H. Income Tax Status

1. If a favorable letter of determination has not been obtained or maintained, is the federal income tax status of the plan disclosed? [SFAS 35 par. 28f; AAG 2.50*f*]	_____	_____	_____

Practice Tip

Note that reports filed in accordance with the requirements of ERISA must include disclosure of "information concerning whether or not a tax ruling or determination letter has been obtained," which is more than is required by FASB Statement No. 35, as amended.
[AAG 2.50*f*]

I. Uncertainty in Income Tax

Notes: In June 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, was issued. The interpretation was effective for fiscal years beginning after December 15, 2006. In December 2008, FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, was issued, which delays the effective date of FASB Interpretation No. 48 for certain nonpublic enterprises, including defined benefit plans, to fiscal years beginning after December 15, 2008. Nonpublic enterprises that have applied the recognition, measurement, and disclosure provisions of FASB Interpretation No. 48 in a full set of annual financial statements issued prior to the issuance of FSP FIN 48-3 are not eligible for the deferral.

The questions that follow are for plans that have already adopted FASB Interpretation No. 48. For additional guidance readers may refer to a practice guide developed by the staff of the AICPA Accounting Standards, Audit and Attest Standards, and Tax Teams titled "Accounting for Uncertain Tax Positions Under FASBI 48" to help practitioners implement FASB Interpretation No. 48. FASB Interpretation No. 48 interprets FASB Statement No. 109, *Accounting for Income Taxes*. Also see the section "Unrelated Business Income Tax and FASB Interpretation No. 48" of the AICPA Audit Risk Alert *Employee Benefit Plans Industry Developments—2009* (product no. 0224109) for further discussion.

	Yes	No	N/A
1. Does a plan disclose its policy on classification of interest and penalties in accordance with paragraph 19 of FASB Interpretation No. 48 in the footnotes to the financial statements? [FIN 48 par. 20]	_____	_____	_____
2. Does a plan disclose the following at the end of each annual reporting period presented:			
a. A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, which shall include at a minimum:			
(1) the gross amounts of the increases and decreases in unrecognized tax benefits as a result of tax positions taken during a prior period?	_____	_____	_____
(2) the gross amounts of increases and decreases in unrecognized tax benefits as a result of tax positions taken during the current period?	_____	_____	_____
(3) the amounts of decreases in the unrecognized tax benefits relating to settlements with taxing authorities?	_____	_____	_____
(4) reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations?	_____	_____	_____
b. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate?	_____	_____	_____
c. The total amounts of interest and penalties recognized in the statement of changes in net assets available for benefits operations and the total amounts of interest and penalties recognized in the statement of net assets available for benefits?	_____	_____	_____
d. For positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date			
(1) the nature of the uncertainty?	_____	_____	_____
(2) the nature of the event that could occur in the next 12 months that would cause the change?	_____	_____	_____
(3) an estimate of the range of the reasonably possible change or a statement that an estimate of the range cannot be made?	_____	_____	_____
e. A description of tax years that remain subject to examination by major tax jurisdictions? [FIN 48 par. 21]	_____	_____	_____
3. Has the liability for unrecognized tax benefits (or reduction in amounts refundable) **not** been combined with deferred tax liabilities or assets? [FIN 48 par. 17]	_____	_____	_____
4. Is a liability that has been recognized as a result of applying FASB Interpretation No. 48, not classified as a deferred tax liability unless it arises from a taxable temporary difference? [FIN 48 par. 18]	_____	_____	_____

	Yes	*No*	*N/A*

J. Plan Terminations

1. If a decision is made to terminate the plan or a wasting trust or frozen plan exists, are all relevant circumstances disclosed? [AAG 2.69] _____ _____ _____
2. If a decision is made to terminate the plan before the end of the plan year, have all benefits been determined on a liquidation basis and reported as vested? [AAG 2.70 and 2.71] _____ _____ _____
3. If a decision is made to terminate the plan after the end of the plan year but before the financial statements have been issued, is this fact disclosed? [AU 560.05; AAG 2.70] _____ _____ _____

K. Related-Party Transactions

1. For related-party transactions, do disclosures include:
   a. the nature of the relationships involved? _____ _____ _____
   b. for each period for which a statement of changes in net assets is presented:
      (1) a description of the transactions, including transactions to which no amounts or nominal amounts were ascribed? _____ _____ _____
      (2) other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements? _____ _____ _____
      (3) the dollar amount of transactions? _____ _____ _____
      (4) the effects of any changes in the method of establishing the terms from that used in the preceding period? _____ _____ _____
   c. amounts due from or to related parties as of the date of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57 par. 2–4] _____ _____ _____
2. Is the nature of a controlled relationship disclosed (even if there are no transactions between the entities) if the plan and one or more other entities are under common ownership or management control, and the existence of the control could result in operating results or financial position of the plan being significantly different from those that would have resulted if the plan were autonomous? [SFAS 57 par. 2–4] _____ _____ _____
3. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57 par. 3] _____ _____ _____
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13 par. 29] _____ _____ _____

	Yes	No	N/A
5. Are combined financial statements considered for entities under common control? [ARB 51 par. 22–23]	_____	_____	_____
6. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG 2.50*h* and A.51*c* in App. A]	_____	_____	_____

Practice Tip

ERISA defines a party-in-interest to include fiduciaries or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee organization whose members are covered by the plan, a person who owns 50 percent or more of such an employer or employee association, or relatives of a person previously described.
[AAG 11.01 and A.93 fn 26; ERISA Section 3(14)]

L. Subsequent Events

	Yes	No	N/A
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"? [SFAS 5 par. 8; AU 560.03–.04 and .07]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed?[13] [SFAS 5 par. 11; AU 560.05–.07 and .09; AAG 2.50*i* and 2.70]	_____	_____	_____
3. Do disclosures include any unusual or infrequent events or transactions occurring after the latest benefit information date, but before the issuance of the financial statements, that might significantly affect the usefulness of the financial statements in assessing the plan's present and future ability to pay benefits? [SFAS 35 par. 28i]	_____	_____	_____
4. For those unusual or infrequent events or transactions identified in question 3, do disclosures include the effects of such events or transactions, if reasonably determinable, or the reasons why such effects are not reasonably determinable? [SFAS 35 par. 28i]	_____	_____	_____

M. Transfers and Servicing of Financial Assets and Securitizations

Note: FASB Statement No. 140, was amended by FASB Statement No. 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*. FASB Statement No. 156 was effective as of the beginning of the first fiscal year beginning after September 15, 2006. If FASB Statement No. 156 has been adopted, the following questions that are based on FASB Statement No. 140 do not apply and readers should refer to section M1, "Transfers and Servicing of Financial Assets and Securitizations (SFAS 156)."

[13] Also consider the appropriateness of dual dating the auditor's report for the subsequent event. [AU 530.05]

	Yes	*No*	*N/A*
1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions? [SFAS 140 par. 17a; AAG 2.34]	_____	_____	_____
2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? [SFAS 140 par. 17d]	_____	_____	_____
3. For all servicing assets and servicing liabilities, are the following disclosures made:			
a. The amounts of servicing assets or liabilities recognized and amortized during the period?	_____	_____	_____
b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?	_____	_____	_____
c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of FASB Statement No. 140?	_____	_____	_____
d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented? [SFAS 140 par. 17e]	_____	_____	_____
4. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:			
a. Its accounting policies for initially measuring the retained interests, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	_____	_____	_____
b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations?	_____	_____	_____
c. The key assumptions* used in measuring the fair value of retained interests at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?	_____	_____	_____

* If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

	Yes	No	N/A
d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests retained)?	____	____	____
5. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:			
a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	____	____	____
b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?	____	____	____
c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under *b* independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?	____	____	____
d. For the securitized assets and any other financial assets that it manages together with them[†]			
(1) the total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?	____	____	____
(2) delinquencies at the end of the period?	____	____	____
(3) credit losses, net of recoveries, during the period?	____	____	____
Disclosure of average balances during the period is encouraged, but not required. [SFAS 140 par. 17f–g]			

Collateral

	Yes	No	N/A
6. If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15a of FASB Statement No. 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented? [SFAS 140 par. 17a(2)]	____	____	____

[†] Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.

	Yes	No	N/A
7. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, is the fair value, as of the date of each statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed? [SFAS 140 par. 17a(3)]	____	____	____
8. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed? [SFAS 140 par. 17a(3)]	____	____	____

M1. Transfers and Servicing of Financial Assets and Securitizations (SFAS 156)

Notes: If FASB Statement No. 156 has been adopted, the following section should be completed.

An entity shall adopt FASB Statement No. 156 as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The effective date of this statement is the date that an entity adopts the requirements of this statement.

	Yes	No	N/A
1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions? [SFAS 140, as amended by SFAS 156 par. 17a; AAG 2.34]	____	____	____
2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? [SFAS 140, as amended par. 17d]	____	____	____
3. For all servicing assets and servicing liabilities, are the following disclosures made:			
a. Management's basis for determining its classes of servicing assets and servicing liabilities?	____	____	____
b. A description of the risks inherent in servicing assets and servicing liabilities and, if applicable, the instruments used to mitigate the income statement effect of changes in fair value of the servicing assets and servicing liabilities? (Disclosure of quantitative information about the instruments used to manage the risks inherent in servicing assets and servicing liabilities, including the fair value of those instruments at the beginning and end of the period, is encouraged but not required.)	____	____	____
c. The amount of contractually specified servicing fees (as defined in the glossary), late fees, and ancillary fees earned for each period for which results of operations are presented, including a description of where each amount is reported in the statement of income?	____	____	____
4. For servicing assets and servicing liabilities subsequently measured at fair value:			

	Yes	No	N/A
a. For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in fair value are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:			
(1) The beginning and ending balances?	____	____	____
(2) Additions (through purchases of servicing assets, assumptions of servicing obligations, and servicing obligations that result from transfers of financial assets)?	____	____	____
(3) Disposals?	____	____	____
(4) Changes in fair value during the period resulting from			
(i) changes in valuation inputs or assumptions used in the valuation model?	____	____	____
(ii) other changes in fair value and a description of those changes?	____	____	____
(5) Other changes that affect the balance and a description of those changes?	____	____	____
b. A description of the valuation techniques or other methods used to estimate the fair value of servicing assets and servicing liabilities? If a valuation model is used, the description shall include the methodology and model validation procedures, as well as quantitative and qualitative information about the assumptions used in the valuation model (for example, discount rates and prepayment speeds). (An entity that provides quantitative information about the instruments used to manage risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(e)(2) of FASB Statement No. 140, as amended by FASB Statement No. 156, is also encouraged, but not required, to disclose a description of the valuation techniques, as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.)	____	____	____
5. For servicing assets and servicing liabilities subsequently amortized in proportion to and over the period of estimated net servicing income or loss and assessed for impairment or increased obligation:			
a. For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in the carrying amount are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:			
(1) The beginning and ending balances?	____	____	____
(2) Additions (through purchases or servicing assets, assumption of servicing obligations, and servicing obligations that result from transfers of financial assets)?	____	____	____
(3) Disposals?	____	____	____
(4) Amortization?	____	____	____

	Yes	No	N/A
(5) Application of valuation allowance to adjust carrying value of servicing assets?	_____	_____	_____
(6) Other-than-temporary impairments?	_____	_____	_____
(7) Other changes that affect the balance and a description of those changes?	_____	_____	_____
b. For each class of servicing assets and servicing liabilities, the fair value of recognized servicing assets and servicing liabilities at the beginning and end of the period if it is practicable to estimate the value?	_____	_____	_____
c. A description of the valuation techniques or other methods used to estimate fair value of the servicing assets and servicing liabilities? If a valuation model is used, the description shall include the methodology and model validation procedures, as well as quantitative and qualitative information about the assumptions used in the valuation model (for example, discount rates and prepayment speeds). (An entity that provides quantitative information about the instruments used to manage risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(e)(2) of FASB Statement No. 140, as amended by FASB Statement No. 156, is also encouraged, but not required, to disclose a description of the valuation techniques as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.)	_____	_____	_____
d. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of FASB Statement No. 140, as amended by FASB Statement No. 156?	_____	_____	_____
e. The activity by class in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and recoveries credited to operations, and aggregate write-downs charged against the allowance—for each period for which results of operations are presented?	_____	_____	_____
6. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:			
a. Its accounting policies for initially measuring the interests that continue to be held by the transferor, if any, and servicing assets or servicing liabilities, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	_____	_____	_____
b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on interests that continue to be held by the transferor) and the gain or loss from sale of financial assets in securitizations?	_____	_____	_____

Yes *No* *N/A*

c. The key assumptions* used in measuring the fair value of interests that continue to be held by the transferor and servicing assets or servicing liabilities, if any, at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)? ____ ____ ____

d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests that continue to be held by the transferor)? ____ ____ ____

7. If the entity has interests that continue to be held by the transferor in financial assets that it has securitized or servicing assets or servicing liabilities relating to assets that it has securitized, at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:

a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value? ____ ____ ____

b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)? ____ ____ ____

c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests (including any servicing assets or servicing liabilities) of two or more unfavorable variations from the expected levels for each key assumption that is reported under *b* independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test? ____ ____ ____

d. For the securitized assets and any other financial assets that it manages together with them:

(1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period? ____ ____ ____

(2) Delinquencies at the end of the period? ____ ____ ____

(3) Credit losses, net of recoveries, during the period? ____ ____ ____

* If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

Yes No N/A

Note: Disclosure of average balances during the period is encouraged, but not required.

[SFAS 140, as amended by SFAS 156 par. 17e–i]

N. Fair Value Measurements

Notes: In September 2006, FASB issued FASB Statement No. 157, which is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year.
[AAG 2.09]

The statement shall be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied. Certain exceptions apply. Readers should refer to the statement for those exceptions.

In February 2008, FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of FASB Statement No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized and disclosed at fair value in the financial statements on a recurring basis. FSP FAS 157-2 defers the effective date of FASB Statement No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. Because most of plans have assets and liabilities that are recognized and disclosed at fair value, this deferral may not be applicable. In the event, a plan holds such nonfinancial assets, it is advisable to consult the text of FSP FAS 157-2 which is available online at www.fasb.org.‡

‡ In April 2009, FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which provides additional guidance for estimating fair value in accordance with FASB Statement No. 157. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 also amends FASB Statement No. 157 to require that a reporting entity

a. disclose in interim and annual periods the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period; and

b. define *major category* (see paragraphs 32–33 of FASB Statement No. 157) for equity securities and debt securities to be major security types as described in paragraph 19 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (as amended by FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*).

FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted. Certain exceptions apply. For specific information, consult the text of FSP FAS 157-4 which is available online at www.fasb.org.

	Yes	No	N/A
1. For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs (level 3), the effect of the measurements on earnings (or changes in net assets) for the period. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category‖ of assets and liabilities:			
a. The fair value measurements at the reporting date,	____	____	____
b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (level 1), significant other observable inputs (level 2), and significant unobservable inputs (level 3),	____	____	____
c. For fair value measurements using significant unobservable inputs (level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:[14]			
(1) Total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities),	____	____	____
(2) Purchases, sales, issuances, and settlements (net),	____	____	____
(3) Transfers in or out, or both, of level 3 (for example, transfers due to changes in the observability of significant inputs).	____	____	____
d. The amount of the total gains or losses for the period in subparagraph (c)(1) included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or activities),	____	____	____
e. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques, if any, during the period.[#] [SFAS 157 par. 32]	____	____	____

‖ For plans that have adopted FSP FAS 157-4, the term *major category* for equity and debt securities shall be defined as major security type as described in paragraph 19 of FASB Statement No. 115 even if the equity securities or debt securities are not within the scope of SFAS 115). See footnote ‡ for an overview of FSP FAS 157-4 and its effective dates.

[14] For derivative assets and liabilities, the reconciliation disclosure required by paragraph 32(c) may be presented net.

[#] For plans that have adopted FSP FAS 157-4, this disclosure requirement has been amended as follows: "The inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period."

	Yes	No	N/A
2. For assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets and liabilities:			
a. The fair value measurements recorded during the period and the reasons for the measurements,	_____	_____	_____
b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (level 1), significant other observable inputs (level 2), and significant unobservable inputs (level 3),	_____	_____	_____
c. For fair value measurements using significant unobservable inputs (level 3), a description of the inputs and the information used to develop the inputs,	_____	_____	_____
d. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) used to measure similar assets or liabilities in prior periods.[#] [SFAS 157 par. 33]	_____	_____	_____
3. Are the quantitative disclosures required by FASB Statement No. 157 presented using a tabular format? (See appendix A of FASB Statement No. 157 for implementation guidance and examples.) [SFAS 157 par. 34]	_____	_____	_____
4. Is the fair value information disclosed under FASB Statement No. 157 and the fair value information disclosed under other accounting pronouncements (for example, FASB Statement No. 107) combined in the periods in which those disclosures are required, if practicable? (***Encouraged, but not required***.) [SFAS 157 par. 35]	_____	_____	_____
5. Is information about other similar measurements (for example, inventories measured at market value under ARB 43, *Restatement and Revision of Accounting Research Bulletins*, chapter 4) disclosed, if practicable? (***Encouraged, but not required***.) [SFAS 157 par. 35]	_____	_____	_____

[#] For plans that have adopted FSP FAS 157-4, this disclosure requirement has been amended as follows: "The inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period."

Yes No N/A

Transition Guidance

6. At the date this statement is initially applied to the financial instruments in paragraph 37(a)–(c), is the difference between the carrying amounts and the fair values of those instruments recognized as a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately? ____ ____ ____
[SFAS 157 par. 38]

Note: The disclosure requirements of FASB Statement No. 154 for a change in accounting principle do not apply.

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7. Are the disclosure requirements of this statement (paragraphs 32–35), including those disclosures that are required in annual periods only, applied in the first interim period of the fiscal year in which this statement is initially applied? ____ ____ ____
[SFAS 157 par. 39]

Notes: The disclosure requirements of this statement need not be applied for financial statements for periods presented prior to initial application of this statement.

In February 2007, FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*, which is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of an fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157.

No entity is permitted to apply this statement retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. The choice to adopt early should be made after issuance of this statement but within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements, including required notes to those financial statements, for any interim period of the fiscal year of adoption.

This statement permits application to eligible items existing at the effective date (or early adoption date). Readers should refer to the complete statement for more detailed information regarding early adoption and effective date.

The disclosures described in paragraphs 18–22 of FASB Statement No. 159 are required for items measured at fair value under the option in FASB Statement No. 159 and the option in paragraph 16 of FASB Statement No. 133 (as amended by FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*). Those disclosures are not required for securities classified as trading securities under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, life settlement contracts measured at fair value

(continued)

Yes No N/A

pursuant to FSP FTB 85-4-1, *Accounting for Life Settlement Contracts by Third-Party Investors*, or servicing rights measured at fair value pursuant to FASB Statement No. 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*. Entities shall provide the disclosures required by paragraphs 18–22 of FASB Statement No. 159 in both interim and annual financial statements. Entities are encouraged but are not required to present the disclosures required by FASB Statement No. 159 in combination with related fair value information required to be disclosed by other statements (for example, FASB Statement No. 107 and FASB Statement No. 157). Appendix B of FASB Statement No. 159 provides illustrative fair value disclosures.

Required Disclosures as of Each Date for Which an Interim or Annual Statement of Financial Position Is Presented

8. As of each date for which a statement of financial position is presented, do the entities disclose the following:

   a. Management's reasons for electing a fair value option for each eligible item or group of similar eligible items? ____ ____ ____

   b. If the fair value option is elected for some but not all eligible items within a group of similar eligible items

      (1) a description of those similar items and the reasons for partial election? ____ ____ ____

      (2) information to enable users to understand how the group of similar items relates to individual line items on the statement of financial position? ____ ____ ____

   c. For each line item in the statement of financial position that includes an item or items for which the fair value option has been elected

      (1) information to enable users to understand how each line item in the statement of financial position relates to major categories of assets and liabilities presented in accordance with FASB Statement No. 157's fair value disclosure requirements? ____ ____ ____

      (2) the aggregate carrying amount of items included in each line item in the statement of financial position that are not eligible for the fair value option, if any? ____ ____ ____

   d. The difference between the aggregate fair value and the aggregate unpaid principal balance of

      (1) loans and long-term receivables (other than securities subject to FASB Statement No. 115) that have contractual principal amounts and for which the fair value option has been elected? ____ ____ ____

      (2) long-term debt instruments that have contractual principal amounts and for which the fair value option has been elected? ____ ____ ____

   e. For loans held as assets for which the fair value option has been elected

      (1) the aggregate fair value of loans that are 90 days or more past due? ____ ____ ____

Yes No N/A

(2) if the entity's policy is to recognize interest income separately from other changes in fair value, the aggregate fair value of loans in nonaccrual status? ____ ____ ____

(3) the difference between the aggregate fair value and the aggregate unpaid principal balance for loans that are 90 days or more past due, in nonaccrual status, or both? ____ ____ ____

f. For investments that would have been accounted for under the equity method if the entity had not chosen to apply the fair value option 4, the information required by paragraph 20 of APB 18, *The Equity Method of Accounting for Investments in Common Stock* (excluding the disclosures in paragraphs 20(a)(3), 20(b), and 20(e) of that Opinion)? ____ ____ ____

Required Disclosures for Each Period for Which an Interim or Annual Income Statement Is Presented

9. For each period for which an income statement is presented, do entities disclose the following about items for which the fair value option has been elected:

a. For each line item in the statement of financial position, the amounts of gains and losses from fair value changes included in earnings during the period and in which line in the income statement those gains and losses are reported? (The statement does not preclude an entity from meeting this requirement by disclosing amounts of gains and losses that include amounts of gains and losses for other items measured at fair value, such as items required to be measured at fair value.) ____ ____ ____

b. A description of how interest and dividends are measured and where they are reported in the income statement? (The statement does not address the methods used for recognizing and measuring the amount of dividend income, interest income, and interest expense for items for which the fair value option has been elected.) ____ ____ ____

c. For loans and other receivables held as assets

(1) the estimated amount of gains or losses included in earnings during the period attributable to changes in instrument-specific credit risk? ____ ____ ____

(2) how the gains or losses attributable to changes in instrument-specific credit risk were determined? ____ ____ ____

d. For liabilities with fair values that have been significantly affected during the reporting period by changes in the instrument-specific credit risk

(1) the estimated amount of gains and losses from fair value changes included in earnings that are attributable to changes in the instrument specific credit risk? ____ ____ ____

(2) qualitative information about the reasons for those changes? ____ ____ ____

(3) how the gains and losses attributable to changes in instrument-specific credit risk were determined? ____ ____ ____
[SFAS 159 par. 19]

	Yes	No	N/A

Note: The disclosure requirements in paragraphs 18–19 of FASB Statement No. 159 do not eliminate disclosure requirements included in other GAAP pronouncements, including other disclosure requirements relating to fair value measurement.
[SFAS 159 par. 20]

Other Required Disclosures

10. In annual periods only, does an entity disclose the methods and significant assumptions used to estimate the fair value of items for which the fair value option has been elected? ____ ____ ____
[SFAS 159 par. 21]

11. If an entity elects the fair value option at the time one of the events in paragraphs 9(d) and (e) of FASB Statement No. 159 occurs, does the entity disclose the following in financial statements for the period of the election:
   a. Qualitative information about the nature of the event? ____ ____ ____
   b. Quantitative information by line item in the statement of financial position indicating which line items in the income statement include the effect on earnings of initially electing the fair value option for an item? ____ ____ ____
   [SFAS 159 par. 22]

O. Other Matters

1. Do disclosures include the funding policy of the pension plan and any changes in such policy during the plan year? ____ ____ ____
[SFAS 35 par. 28d; AAG 2.50*d*]
   a. If significant costs of plan administration are being absorbed by the employer, is this fact disclosed? ____ ____ ____
   [SFAS 35 par. 28d fn 17]
   b. For a contributory plan, does the disclosure on funding policy state the method of determining the participants' contributions? ____ ____ ____
   [SFAS 35 par. 28d; AAG 2.50*d*]
   c. For ERISA plans, do disclosures include whether the minimum funding requirements of ERISA are met? ____ ____ ____
   [SFAS 35 par. 28d; AAG 2.50*d*]
   d. If a minimum funding waiver has been granted by the Internal Revenue Service (IRS) or if a request for a waiver is pending before the IRS, is this fact disclosed? ____ ____ ____
   [SFAS 35 par. 28d]
   e. Does the plan include a brief description of how contributions are determined pursuant to the actuarial cost method? ____ ____ ____
   [SFAS 35 par. 262] (optional)
   f. Did the plan disclose information regarding the estimated future impact of the funding policy on an existing difference between the net asset and benefit information? ____ ____ ____
   [SFAS 35 par. 263] (optional)

	Yes	No	N/A
2. Do disclosures include the policy regarding the purchase of insurance contracts that are excluded from plan assets and the income from those contracts? [SFAS 35 par. 28e; AAG 2.50*e*]	____	____	____
3. Do disclosures include significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (*a*) the sponsor, (*b*) the employer(s), or (*c*) the employee organization(s)? [See also section K, "Related-Party Transactions," regarding parties-in-interest] [SFAS 35 par. 28h; AAG 2.50*h*]	____	____	____

ERISA Reporting Requirements

A. Form 5500 Series Report

	Yes	No	N/A
1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP or an other comprehensive basis of accounting (OCBOA), such as the cash basis or modified cash basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards? [AAG 13.20–.21 and A.23]	____	____	____

Practice Tip

DOL regulations permit plans that have between 80 and 120 participants (inclusive) at the beginning of the plan year to complete the Form 5500 in the same category (*large plan* or *small plan*) as was filed for the previous year. The Form 5500 is filed with the Employee Benefits Security Administration (EBSA) in Lawrence, Kansas, in accordance with the instructions to the form. (See paragraphs .33–.36 of FSP section 7000 for a discussion about the Form 5500.)

B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements of the pension plan are filed under the *alternative method* pursuant to DOL Regulations Sec. 2520.103-1(a)(2), do the disclosures in the financial statements include

	Yes	No	N/A
a. a description of accounting principles and variances from GAAP?	____	____	____
b. a description of the plan, including significant changes in the plan, and the effect of the changes on benefits?	____	____	____
c. the funding policy and changes in the funding policy from the prior year?	____	____	____
d. a description of material lease commitments, and other commitments and contingent liabilities?	____	____	____
e. a description of any agreements and transactions with persons known to be parties-in-interest?	____	____	____
f. a general description of priorities in the event of plan termination?	____	____	____

	Yes	No	N/A
g. whether a tax ruling or determination letter has been obtained?	_____	_____	_____
h. an explanation of any differences between the separate financial statements and the financial information required on Form 5500? [AAG A.50a and A.51c]	_____	_____	_____

Practice Tip

Because ERISA requires 401(h) accounts to be reported as assets of the defined benefit pension plan, and GAAP requires them to be deducted before arriving at the total of net assets available for pension benefits, a reconciliation of the net assets reported in the financial statements to those reported in Form 5500 is required. The reconciliation should be accompanied by a discussion of the 401(h) account, explaining clearly that the assets in the 401(h) account are not available to pay pension benefits. Additionally, any assets held for investment purposes in the 401(h) account should be shown on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) and Schedule H, line 4j—Schedule of Reportable Transactions for the pension plan.
[SOP 99-2 par. 14 (ACC 10,780.14); AAG 2.63]

C. Required Financial Statements and Supporting Schedules

1. For plans filing under either method (statutory or alternative), are the following financial statements included and covered by the auditor's report:

	Yes	No	N/A
a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year?	_____	_____	_____
b. Separate or combined statements of plan income and expenses and of changes in net assets? [AAG A.51a]	_____	_____	_____

2. The Form 5500 requires that certain supplemental schedules be attached to the annual Form 5500 filing. The information reported in these schedules has not changed from prior years. However, reporting is standardized in that some of these schedules are required to be reported on Schedule G, Financial Transactions Schedules of Form 5500. Pursuant to DOL regulations, are the following *separate schedules* included with the financial statements of the plan and covered by the auditor's report:

Practice Tip

The instructions to the Form 5500 provide specific information about the form and content of the various schedule requirements.

	Yes	No	N/A
a. The Schedule H, line 4i—Schedule of Assets (Held at End of Year). Does the schedule use the format shown here and is it clearly labeled "Schedule H, line 4i—Schedule of Assets (Held at End of Year)?" (If filing under the alternative method, a separate schedule of assets held at plan year-end and a schedule of certain assets acquired and disposed of within the plan year.) [AAG exhibit A-1]	_____	_____	_____

Yes No N/A

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value

Practice Tip

Participant loans may be aggregated and presented with a general description of terms and interest rates. In column (d), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan. Any assets held for investment purposes in the 401(h) account should be shown on Schedule H, line 4i—Schedule of Assets (Held at End of Year), and Schedule H, line 4j—Schedule of Reportable Transactions, for the pension plan.

b. The Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year) (see 2520.103-11). Is the schedule clearly labeled "Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)" and does it use the following format? [AAG exhibit A-1] _____ _____ _____

(a) Identity of issue, borrower, lessor, or similar party	(b) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(c) Cost of acquisitions	(d) Proceeds of dispositions

Practice Tip

In column (c), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan.

c. The Schedule H, line 4j—Schedule of Reportable Transactions. Is this schedule clearly labeled "Schedule H, line 4j—Schedule of Reportable Transactions" and does it use the following format? [AAG exhibit A-1] _____ _____ _____

(a) Identity of party involved	(b) Description of asset (include interest rate and maturity in case of a loan)	(c) Purchase price	(d) Selling price	(e) Lease rental	(f) Expense incurred with transaction	(g) Cost of asset	(h) Current value of asset on transaction date	(i) Net gain or (loss)

Practice Tip

Participant or beneficiary directed transactions under an individual account plan should not be taken into account for purposes of preparing this schedule. The current value of all assets of the plan, including those resulting from participant direction, should be included in determining the 5 percent figure for all other transactions. Any assets held for investment purposes in the 401(h) account should be shown on Schedule H, line 4i—Schedule of Assets (Held at End of Year), and Schedule H, line 4j—Schedule of Reportable Transactions, for the pension plan.

d. The Schedule H, Line 4a—Schedule of Delinquent Participant Contributions? _____ _____ _____

	Yes	*No*	*N/A*

Practice Tip

Information on delinquent participant contributions should be reported on line 4a of either Schedule H or Schedule I of the Form 5500. Information on delinquent participant contributions is no longer required to also be reported on line 4d of Schedule H or Schedule G, rather delinquent participant contributions may be reported on a separate supplemental schedule to be attached to the Form 5500 and reported on by the Independent Qualified Public Accountant (IQPA). For further guidance see the EBSA Web site frequently asked questions at www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

e. Are the following schedules reported on Schedule G, *Financial Transactions Schedules,* of the Form 5500:

	Yes	No	N/A
(1) Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible?	____	____	____
(2) Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible?	____	____	____
(3) Schedule G, Part III—Nonexempt Transactions? [AAG exhibit A-1]	____	____	____

Practice Tip

Plans filing their annual reports under the statutory method are required to report transactions that exceed 3 percent of the fair value of plan assets at the beginning of the year, whereas plans that file pursuant to the alternative method of compliance prescribed in DOL regulations are required to report transactions that exceed 5 percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the fair value of plan assets at the end of the year.
[AAG A.51 fn 19]

FSP Section 7300
Auditors' Report Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 This checklist contains numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AAG =	AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2009)
AU=	Reference to section number in AICPA *Professional Standards* (vol. 1)
AR=	Reference to section number in AICPA *Professional Standards* (vol. 2)
CFR=	Code of Federal Regulations
DOL=	Department of Labor
PCAOB=	Public Company Accounting Oversight Board
SAS =	AICPA Statement on Auditing Standards

.03 The PCAOB establishes standards for audits of *issuers*, as that term is defined by the Sarbanes-Oxley Act of 2002 (the act) or whose audit is prescribed by the rules of the Securities and Exchange Commission (SEC). Other entities are referred to as *nonissuers*.

Practice Tip

Interpretation No. 17, "Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards," of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .85–.88), provides language that may be added to the auditor's standard report on the financial statements of a nonissuer to clarify differences between an audit conducted in accordance with generally accepted auditing standards (GAAS) and an audit conducted in accordance with the standards of the PCAOB. Interpretation No. 18, "Reference to PCAOB Standards in an Audit Report on a Nonissuer," of AU section 508 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .89–.92), explains how the auditor may report if engaged to also follow PCAOB auditing standards in the audit of a nonissuer.

.04 Checklist Questionnaire:

	Yes	*No*	*N/A*
1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor's report? [AU 508.06]	_____	_____	_____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	_____	_____	_____

	Yes	*No*	*N/A*
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	_____	_____	_____
4. Is the report appropriately addressed? [AU 508.09]	_____	_____	_____
5. Does the independent auditor's report include the following elements:			
a. A title that includes the word "independent"? [AU 508.08*a*]	_____	_____	_____
b. A statement that the financial statements identified in the report were audited? [AU 508.08*b*]	_____	_____	_____
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [AU 508.08*c*]	_____	_____	_____
d. **(Audits of nonissuers and for filings with the DOL only)** A statement that the audit was conducted in accordance with GAAS and an identification of the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. GAAS)? [AU 508.08*d*]	_____	_____	_____
e. **(Audits of issuers only—including 11-K filings)** A statement that the audit was conducted in accordance with the standards of the PCAOB (United States)? [PCAOB Auditing Standard No. 1 par. 3]	_____	_____	_____
f. A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [AU 508.08*e*]	_____	_____	_____
g. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [AU 508.08*f*]	_____	_____	_____
h. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [AU 508.08*g*]	_____	_____	_____

	Yes	No	N/A
i. When the auditor reports on financial statements presented in conformity with accounting principles generally accepted in the United States of America, an opinion as to whether the financial statements present fairly, in all material respects, the net assets of the plan as of the balance sheet date and the changes in net assets for the period then ended in conformity with generally accepted accounting principles? The opinion should include an identification of the United States of America as the country of origin of those accounting principles (GAAP). [AU 508.08*h*]	____	____	____

Note: In May 2008, the Auditing Standards Board (ASB) issued Interpretation No. 19, "Financial Statements Prepared in Conformity With International Financial Reporting Standards as Issued by the International Accounting Standards Board," of AU section 508 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .93–.97) which provides that, when the auditor of a nonissuer reports on financial statements prepared in conformity with International Financial Reporting Standards (IFRSs), the auditor would refer, in the auditor's report, to IFRSs rather than U.S. GAAP.

When an auditor of a nonissuer reports on financial statements presented in conformity with both the IFRSs as issued by the International Accounting Standards Board (IASB) and a jurisdictional variation of the IFRSs, the auditor would refer, in the auditor's report, to both the IFRSs and IFRSs as endorsed by [*insert name of endorsing country or economic union*].

When an auditor of a nonissuer reports on financial statements presented in conformity with a jurisdictional variation of the IFRSs such that the entity's financial statements do not contain an explicit and unreserved statement of compliance with the IFRSs as issued by the IASB, paragraphs .14–.15 of AU section 534, *Reporting on Financial Statements Prepared for Use in Other Countries* (AICPA, *Professional Standards*, vol. 1), and paragraphs .35–.60 of AU section 508 apply to financial statements prepared for more than limited distribution in the United States.

	Yes	No	N/A
j. When the auditor reports on financial statements presented in conformity with the IFRSs, an opinion about whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with the IFRSs as issued by the IASB? [AU 9508.93–.97]	____	____	____
k. When the auditor reports on financial statements presented both in conformity with the IFRSs and a jurisdictional variant of the IFRSs, an opinion about whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with the IFRSs as issued by the IASB and with the IFRSs as endorsed by [*insert name of endorsing country or economic union*]? [AU 9508.93–.97]	____	____	____

	Yes	No	N/A
l. When the auditor reports on financial statements presented in conformity with a jurisdictional variation of the IFRSs such that the entity's financial statements do not contain an explicit and unreserved statement of compliance with the IFRSs as issued by the IASB, a variation of the standard report that reflects the guidance in paragraphs .14–.15 of AU section 534 and paragraphs .35–.60 of AU section 508 for financial statements prepared for more than limited distribution in the United States? [AU 9508.93–.97]	____	____	____
m. The manual or printed signature of the auditor's firm? [AU 508.08*i*]	____	____	____
n. The date (or dual dates)* of the audit report? [AU 508.08*j*]	____	____	____

Practice Tips

DOL regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued.

AU section 530, *Dating of the Independent Auditor's Report* (AICPA, *Professional Standards*, vol. 1), says the auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion. Such sufficient appropriate audit evidence includes management having asserted responsibility for the final financial statements. In May 2007, the AICPA issued a Technical Practice Aid (TPA) providing nonauthoritative guidance regarding the effect of obtaining the management representation letter on dating the auditor's report. See TPA Technical Questions and Answers (TIS) section 9100.06, "The Effect of Obtaining the Management Representation Letter on Dating the Auditor's Report" (AICPA, *Technical Practice Aids*), for this and other helpful guidance regarding the auditor's report.

Notes: In May 2008, the ASB issued Interpretation No. 14, "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and in Accordance With International Standards on Auditing," of AU section 508 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .56–.59), which provides that, when the audit of a nonissuer is conducted both in accordance with U.S. GAAP and in accordance with the International Standards on Auditing (ISA), the auditor may so indicate in the auditor's report.

To determine whether an audit was conducted in accordance with the ISA, it is necessary to consider the text of the ISA in their entirety, including the basic principles and essential procedures together with the related guidance included in the ISA.

* If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered. [AU 530.05]

	Yes	No	N/A
6. If the audit of financial statements to be used in the United States was conducted in accordance with auditing standards generally accepted in the United States of America and the ISA as issued by the International Auditing and Assurance Standards Board, in their entirety, has the auditor considered indicating in the auditor's report that the audit was also conducted in accordance with ISA as allowed? (***Note***: Not required—Interpretation No. 14 of AU section 508 provides an example report.) [AU 9508.57–.59]	_____	_____	_____
7. If a subsequent event disclosed in the financial statements occurs after the date of the independent auditor's report but before the issuance of the related financial statement, has the need for dual-dating of the report been considered? [AU 530.03–.05]	_____	_____	_____
8. If the accountant is not independent, has he or she followed one of the two reporting alternatives available:			
a. Disclaiming the opinion with respect to the financial statements and specifically stating that he or she is not independent? or,	_____	_____	_____
b. Issuing a compilation report in accordance with Statements on Standards for Accounting and Review Services indicating the lack of independence (nonpublic companies only)? [AU 504.05 and .09–.10; (AR 100.23 and .48)]	_____	_____	_____
9. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [AU 508.33–.34]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [AU 504.14–.17]	_____	_____	_____
c. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL regulations? [AAG 13.08–.18]	_____	_____	_____

Practice Tip

The guide includes additional auditor reports with respect to "change in trustee," "financial statements of a trust established under a plan," and "inadequate procedures to value investments."
[AAG 13.31, 13.33, and 13.38]

Explanatory Paragraphs

	Yes	No	N/A
10. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____
b. Does the opinion paragraph include a reference to the report of the other auditor? [AU 508.11*a* and .12–.13]	_____	_____	_____

	Yes	*No*	*N/A*
11. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [AU 508.11*b* and .15]	_____	_____	_____
12. If there is substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	_____	_____	_____
b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the plan's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [AU 508.11*c* and 341.12]	_____	_____	_____

Practice Tips

During the audit of an employee benefit plan, the auditor may become aware that the plan sponsor may not be able to continue as a going concern. Although the employee benefit plan's going concern assessment is not automatically affected by the plan sponsor's financial adversities, the auditor should address whether those difficulties pose any imminently potential impact on the plan.
[AAG 5.126]

In evaluating whether there is substantial doubt about the plan's ability to continue as a going concern, the auditor's evaluation is based on his or her knowledge of relevant conditions that exist at or have occurred prior to *the date of the auditor's report*. If, after considering identified conditions and events and management's plans, the auditor concludes that substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time remains, the audit report should include an explanatory paragraph to reflect that conclusion.

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See AU section 311, *Planning and Supervision* (AICPA, *Professional Standards*, vol. 1), for an example.
[AU 341.13]

	Yes	*No*	*N/A*
13. **For audits of issuers, such as 11-K audits,** prior to the report release date, among other matters, has the auditor obtained sufficient evidence to support the representations in the auditor's reports? [PCAOB Auditing Standard No. 3 par. A15]	_____	_____	_____
14. **For audits of nonissuers and audits of issuers, such as 11-K audits**, is the report dated no earlier than the date on which the auditor has obtained sufficient competent audit evidence to support the auditor's opinion on the financial statements? [AU 530.01 and .05; PCAOB Auditing Standard No. 5 par. 89]	_____	_____	_____

Yes No N/A

Practice Tips

Changes in Accounting Estimates

Paragraph .15 of AU section 420, *Consistency of Application of Generally Accepted Accounting Principles* (AICPA, *Professional Standards*, vol. 1), clarifies that the change in an accounting estimate that does not include a change in accounting principle does not require an explanatory paragraph in the auditor's report. However, an accounting change of this type having a material effect on the financial statements may require disclosure in a note to the financial statements.

Changes in Classification

Paragraph .17 of AU section 420 clarifies that changes in classification from the prior year's financial statements are usually not of sufficient importance to necessitate disclosure; however, material changes in classification should be indicated and explained in the financial statements or notes.

Error Corrections

Paragraph .16 of AU section 420 states that the correction of an error in previously issued financial statements resulting from mathematical mistakes, oversight, or misuse of facts that existed at the time the financial statements were originally prepared does not involve the consistency standard if no element of accounting principles or their application is included. Accordingly, the independent auditor need not recognize the correction in his or her report. However, if the independent auditor had previously reported on the financial statements containing the error, the auditor has concluded, based on the considerations in paragraph .05 of AU section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (AICPA, *Professional Standards*, vol. 1), that action should be taken to prevent future reliance on his or her report, and the issuance of financial statements accompanied by the auditor's report for a subsequent period is imminent, the auditor should disclose the revision in such statements instead of reissuing the earlier statements.

Notes for audits of issuers only [11-k filings with the SEC only] Certain circumstances, although not affecting the auditor's unqualified opinion, may require that the auditor add explanatory language to the standard report as described in paragraphs .11–.19 of AU section 508, *Reports on Audited Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Standards, As Amended).

Other circumstances may require a departure from an unqualified opinion, either in the form of a qualified opinion, an adverse opinion, or a disclaimed opinion as described in paragraphs .20–.63 of AU section 508 (AICPA, *PCAOB Standards and Related Rules*, PCAOB Standards, As Amended).

******

In January 2008, the PCAOB adopted Auditing Standard No. 6, *Evaluating Consistency of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Standards"), and an accompanying set of amendments to the PCAOB's interim auditing standards. Among other significant provisions, the new standard and related amendments update the auditor's responsibilities to evaluate and report on the consistency of a company's financial statements and align the auditor's responsibilities with FASB Statement No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion NO. 20 and FASB Statement No. 3.*

One significant difference in terminology between FASB Statement No. 154 and Auditing Standard No. 6 is the use of the term *error* in the FASB standard whereas the PCAOB standard uses the term *misstatement* and specifically states that the meaning is the same for purposes of the PCAOB auditing standards. Auditing Standard No. 6 also establishes that the auditor's report should indicate whether an adjustment to previously issued financial statements results from a change in accounting principle or the correction of a misstatement.

Auditing Standard No. 6 contains numerous amendments to AU section 508 (AICPA, *PCAOB Standards and Related Rules*, PCAOB Standards, As Amended) and other interim PCAOB auditing standards. The Securities and Exchange Commission (SEC) approved Auditing Standard No. 6 in its Release No. 34-58555 dated Sep-

(continued)

Yes No N/A

tember 16, 2008. The new standard and related amendments are effective November 15, 2008. If Auditing Standard No. 6 is applicable to issuers' financial statements, answer questions 16 and 17; otherwise, skip questions 16–17. For more information and for the full text of the auditing standard, refer to the PCAOB Web site at www.pcaob.org. Also refer to the SEC Web site at www.sec.gov.

15. **(Audits of nonissuers and for filings with the DOL only)** If there has been a material change between periods in accounting principles or in the method of their application, including a change from an accounting principle that is not generally accepted to one that is generally accepted and a change in accounting principle that is inseparable from the effect of a change in estimate, that has a material effect on the comparability of the reporting entity's financial statements:

    a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change? _____ _____ _____

    b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? _____ _____ _____
    [AU 508.05–.06 and .12–.13]

    c. If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor's report? (***Note:*** A change in the reporting entity resulting from a transaction or event does not require that an explanatory paragraph about consistency be included in the auditor's report.) _____ _____ _____
    [AU 420.08]

Practice Tip

Changes in the format of presentation of accumulated benefit information or a change in the date as of which such information is presented does not require the auditor to add an explanatory paragraph to his or her report.
[AU 9420.64–.65; AAG 13.25]

16. **(Audits of issuers only [11-K filings with the SEC only])** If there has been a change in accounting principle that has a material effect on the financial statements, including a change in the method of applying an accounting principle, a change in estimate effected by a change in accounting principle, and a change in classification that represents a change in accounting principle, and meets the four criteria established in paragraph 7 of PCAOB Auditing Standard No. 6:

    a. Does the report include an explanatory paragraph, following the opinion paragraph, in the year of the change and in subsequent years until the new accounting principle is applied in all periods presented? _____ _____ _____

    b. Does the explanatory paragraph identify the nature of the change and include a reference to the note disclosure describing the change? _____ _____ _____

Yes *No* *N/A*

c. If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor's report? [PCAOB Auditing Standard No. 6 par. 4–8 and 11] ____ ____ ____

17. **(Audits of issuers only [11-K filings with the SEC only])** If there has been a correction of a material misstatement in previously issued financial statements, including a change from an accounting principle that is not generally accepted to one that is generally accepted and a change in classification that represents the correction of a material misstatement, does the auditor's report contain an explanatory paragraph, following the opinion paragraph, that includes:

    a. A statement that the previously issued financial statements have been restated for the correction of a misstatement in the respective period? ____ ____ ____

    b. A reference to the company's disclosure of the correction of the misstatement? ____ ____ ____
    [PCAOB Auditing Standard No. 6 par. 5 and 9–11]

18. In an updated report on the individual financial statements of one or more prior periods presented on a comparative basis with those of the current period, if the opinion is different from the opinion previously expressed on the financial statements of a prior period:

    a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion? ____ ____ ____

    b. Does the explanatory paragraph disclose:

    (1) The date of the auditor's previous report? ____ ____ ____

    (2) The type of opinion previously expressed? ____ ____ ____

    (3) The circumstances or events that caused the auditor to express a different opinion? ____ ____ ____

    (4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? ____ ____ ____
    [AU 508.11*e* and .68–.69]

19. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:

    a. Does the introductory paragraph of the report indicate:

    (1) That the financial statements of the prior period were audited by another auditor? ____ ____ ____

    (2) The date of the predecessor auditor's report? ____ ____ ____

    (3) The type of report issued by the predecessor auditor? ____ ____ ____

    (4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification? ____ ____ ____

	Yes	No	N/A
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [AU 508.11*e* and .72–.74]	____	____	____
20. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if:			
a. The auditor wishes to clarify that an audit performed in accordance with generally accepted auditing standards does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Sarbanes-Oxley Act is applicable? [AU 9508.85–.88]	____	____	____

Note: Not required—Interpretation No. 17 of AU section 508 provides an example report.

	Yes	No	N/A
b. The audit is conducted in accordance with both GAAS and the PCAOB's auditing standards as illustrated by Interpretation No. 18 of AU section 508? [AU 9508.89–.92]	____	____	____

Note: Not required—Interpretation No. 18 of AU section 508 provides an example report.

	Yes	No	N/A
21. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if the prior period's financial statements are audited by a predecessor auditor who has ceased operations? [AU 9508.60–.75]	____	____	____
22. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an explanatory paragraph stating that fact? [AU 508.11*f*]	____	____	____
23. If supplementary information required by GAAP has been omitted, the presentation of such information departs materially from prescribed guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to prescribed guidelines, does the report include an additional paragraph stating that fact? [AU 508.11*g* and 558.08]	____	____	____
24. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if there is a material change between periods in accounting principles or in the method of their application? [AU 508.16–.18]	____	____	____
25. If the audit also was conducted in accordance with the ISA, in their entirety, does the auditor's report indicate that the audit was also conducted in accordance with another set of auditing standards? [AU 9508.56–.59]	____	____	____

	Yes	No	N/A
26. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [AU 508.11*h* and 550.04]	____	____	____
27. If certain other information has been subjected to auditing procedures applied in the audit of the basic financial statements, does the auditor express an opinion on whether the information is fairly stated in all material respects in relation to those financial statements taken as a whole in the auditor's report describing clearly the character of the auditor's work and the degree of responsibility the auditor is taking? [AU 550.07 and 558.09]	____	____	____
28. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the matter being emphasized disclosed in the financial statements and is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [AU 508.11 and .19; 9410.18; 9342.03]	____	____	____
29. If the decision has been made to terminate a plan:			
a. Is the auditor's report modified by the addition of an explanatory paragraph that states that the plan is being terminated and that the financial statements (including the benefit information disclosures presented) have been prepared on a liquidation basis? [AAG 13.41]	____	____	____
b. If the financial statements are presented along with the financial statements for a period prior to the adoption of the liquidation basis, does the explanatory paragraph state that the plan has changed the basis of accounting used to determine the amounts at which assets, liabilities, and benefit information are presented from the ongoing plan basis to a liquidation basis? [AAG 13.41; AU 9508.35]	____	____	____

Practice Tip

DOL Regulation Section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL regulations.

Departures From Unqualified Opinions

	Yes	No	N/A
30. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? [AU 508.22]	____	____	____
31. If a qualified opinion is to be expressed because of a scope limitation:			
a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of*?	____	____	____

		Yes	No	N/A
c.	Is the situation described and referred to in both the scope and opinion paragraphs?	_____	_____	_____
d.	Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? [AU 508.22–.32 and 318.76]	_____	_____	_____

Practice Tips

Scope limitations can be imposed by the client or by circumstances such as the timing of the auditor's work, the inability to obtain sufficient appropriate audit evidence, or an inadequacy in the accounting records. Sufficient appropriate audit evidence includes, among other things, management having asserted responsibility for the financial statements. As provided in TIS section 9100.06, the auditor will need to have the signed management representation letter in hand prior to releasing the auditor's report because management's refusal to furnish written representations constitutes a limitation on the scope of the audit sufficient to preclude an unqualified opinion.

In circumstances in which the auditor is unable to obtain sufficient appropriate audit evidence to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements, the auditor should consider the need to express a qualified opinion or to disclaim an opinion because of a scope limitation.

It also includes situations in which the auditor's only evidence of the existence or valuation of (*a*) investments without readily determinable fair value, or (*b*) interests held in trust by a third-party trustee, is receiving confirmation from a third party for those assets.

In circumstances in which the auditor is unable to audit the existence or measurement of interests in investments in securities and interests in trusts, the auditor should consider whether that scope limitation requires the auditor to either qualify his or her opinion or to disclaim an opinion, as discussed in paragraphs .22–.26 of AU section 508, AU section 9328 paragraphs .01–.04, and AU section 9332 paragraphs .01–.04 (AICPA, *Professional Standards*, vol. 1).

Notes: For further guidance see the AICPA practice aid *Alternative Investments—Audit Considerations (A practice aid for auditors)*. This practice aid addresses challenges associated with auditing investments for which a readily determinable fair value does not exist (that is, that are not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or the National Association of Securities Dealers Automated Quotations System [NASDAQ]). Alternative investments can present challenges with respect to obtaining sufficient appropriate audit evidence in support of the existence and valuation assertions, because of the lack of a readily determinable fair value for these investments and the limited investment information generally provided by fund managers.
If a plan auditor concludes that information about the nature of the services provided by a service organization that are part of the plan's information system, and the service organization's controls over those services, is not available to obtain a sufficient understanding of internal control to plan the audit, it would be considered a scope limitation.
[AU 324.10]

Consult the AU Topical Index in AICPA *Professional Standards* under "Scope of Audit Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

	Yes	No	N/A
32. Is a qualified opinion or disclaimer of opinion expressed if the auditor's understanding of internal control raises doubts about the auditability of an entity's financial statements, such as:			
a. Concerns about the integrity of an entity's management cause the auditor to conclude that the risk of management misrepresentation in the financial statements is such that an audit cannot be conducted?	____	____	____
b. Concerns about the condition and reliability of an entity's records cause the auditor to conclude that it is unlikely that sufficient appropriate audit evidence will be available to support an unqualified opinion on the financial statements? [AU 314.109]	____	____	____
33. If, in the auditor's judgment, the two-way communication between the auditor and those charged with governance as described in AU section 380, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, vol. 1), is not adequate and the situation cannot be resolved, thereby prohibiting the auditor from obtaining all the audit evidence required to form an opinion on the financial statements, has the auditor considered the following:			
a. Modifying the audit opinion on the basis of the scope limitation?	____	____	____
b. Obtaining legal advice about the consequences of different courses of action?	____	____	____
c. Communicating with an appropriate third party (for example, a regulator)?	____	____	____
d. Withdrawing from the engagement? [AU 380.63]	____	____	____
34. If, in the auditor's judgment, significant difficulties in dealing with management, such as those described in AU section 380, have been encountered, has the auditor considered modifying the audit opinion on the basis of the scope limitation? [AU 380.39]	____	____	____
35. If an opinion is disclaimed because of a scope limitation:			
a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	____	____	____
b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	____	____	____
c. Does the report avoid identifying procedures that were performed?	____	____	____
d. Is the scope paragraph omitted?	____	____	____
e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [AU 508.62–.63]	____	____	____

	Yes	No	N/A
36. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has the auditor issued a qualified opinion or an adverse opinion?[1] [AU 508.35]	____	____	____
37. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of* and a reference to the explanatory paragraph?	____	____	____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [AU 508.37–.38]	____	____	____
38. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	____	____	____
c. State that the financial statements do not present fairly the net assets available for benefits or changes in net assets in conformity with GAAP? [AU 508.58–.59]	____	____	____
39. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR Section 2520.103-8, is a disclaimer of opinion expressed? [AAG 13.26–.30]	____	____	____

Practice Tip

Consult the AU Topical Index in AICPA *Professional Standards* under "Departures From Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

	Yes	No	N/A
40. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, is it accompanied by a report that:			
a. States that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	____	____	____

[1] The auditor should express a qualified or an adverse opinion if the auditor concludes that (*a*) a matter involving a risk or an uncertainty is not adequately disclosed, (*b*) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (*c*) management's estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [AU 508.46–.49]

	Yes	No	N/A
b. Specifically identify the accompanying information?	____	____	____
c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	____	____	____
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)? [AU 551.06]	____	____	____
e. State that the supplemental schedules are the responsibility of the plan's management? (***Recommended but not a required disclosure.***) [AAG 13.10]	____	____	____

Practice Tip

Question 35 does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR Section 2520.103-8. In these situations, see question 31 and AAG 13.26.

Note: In May 2006, the ASB issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325A). The statement supersedes SAS No. 60 of the same name and was effective for audits of financial statements for periods ending on or after December 15, 2006. Then, in October 2008, the ASB issued SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325). SAS No. 115 supersedes SAS No. 112 of the same title and was issued to eliminate differences within the AICPA's Audit and Attest Standards. SAS No. 115 is effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.

	Yes	No	N/A
41. Is the reporting form, content, and timing of AU section 325 paragraphs .22–.29 followed when communicating matters related to an organization's internal control over financial reporting identified in an audit of financial statements?[2] [AU 325A.22–.29]	____	____	____
42. Auditor's report requirements under DOL regulations:			
a. Is the auditor's report dated and manually signed?	____	____	____
b. Does it indicate the city and state where issued?	____	____	____
c. Does it identify the statements and schedules covered? [AAG A.50*a* fn 16]	____	____	____

[2] Auditors are required to communicate control deficiencies identified during an audit that are significant deficiencies or material weaknesses as defined by AU section 325, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1), including significant deficiencies or material weaknesses that were communicated in previous audits and have not yet been remediated. Those control deficiencies must be communicated in writing to management and those charged with governance.

	Yes	*No*	*N/A*
d. Does it disclose any omitted auditing procedures deemed necessary by the accountant and the reasons for their omission?	____	____	____
e. State clearly the auditor's opinion of the financial statements and schedules covered by the report and the accounting principles and practices reflected therein?	____	____	____
f. State clearly the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles which have a material effect on the financial statements? [AAG A.50*a*; DOL Regulations sec. 29 CFR 2520]	____	____	____
g. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matters on the related financial statements? [29 CFR 2520.103-1(iv)]	____	____	____
(1) Are the exceptions, if any, further identified as *(a)* those that are the result of DOL regulations, and *(b)* all others? [AAG A.50*a*; DOL Regulations sec. 29 CFR 2520]	____	____	____

Practice Tips

Present DOL regulations permit, but do not require, financial statements included in the annual report on Form 5500 to be prepared on a basis of accounting other than GAAP. A common example of the use of a basis other than GAAP is financial statements prepared on the modified cash basis of accounting for filing with the DOL. Reporting on financial statements prepared in conformity with an other comprehensive basis of accounting (OCBOA) is addressed in AU section 623, *Special Reports* (AICPA, *Professional Standards*, vol. 1). See questions 36–45 of FSP section 6200 in *Checklists and Illustrative Financial Statements for Corporations* for the reporting requirements on OCBOA financial statements.
[AAG 13.21]

AU section 532, *Restricting the Use of an Auditor's Report*, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.

FSP Section 7400

Illustrative Financial Statements and Auditor's Reports

.01 This appendix illustrates certain applications of the requirements of Financial Accounting Standards Board (FASB) Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended (the statement), and chapter 2 of the AICPA Audit and Accounting Guide *Employee Benefit Plans* (the guide) that are applicable for the annual financial statements of a hypothetical plan, the C&H Company Pension Plan. It does not illustrate other requirements of the statement that might be applicable in circumstances other than those assumed for the C&H Company Pension Plan. The formats presented and the wording of accompanying notes are illustrative and are not necessarily the only possible presentation. Further, the circumstances assumed for the C&H Company Pension Plan are designed to facilitate illustration of many of the requirements of the statement, as amended. Therefore, the notes to the illustrative financial statements probably are more extensive than would be expected for a typical plan. In addition, the illustrative financial statements in this section have been amended to conform to FASB Statement No. 157, *Fair Value Measurements*.*

Note that FASB Statement No. 157 disclosures are limited to the financial instruments contained within this specific example. It is recommended that users consult all the illustrative financial statements within appendixes D, E, and F of the guide for FASB Statement No. 157 examples of differing types of financial instruments.

.02 Included are illustrations of the alternatives (an end-of-year versus beginning-of-year benefit information date) permitted by paragraphs 6, 8, and 25–26 of FASB Statement No. 35, as amended.

.03 This section also illustrates certain applications of the provisions of Statement of Position (SOP) 99-2, *Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans* (AICPA, *Technical Practice Aids*, ACC sec. 10,780), that apply for the annual financial statements of a hypothetical defined benefit pension plan that has been amended to include a 401(h) account.

.04 This section does not illustrate other provisions of chapter 2 of the guide that might apply in circumstances other than those assumed in this example. The format presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations. The illustrative financial statements have not been revised to reflect the provisions of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

.05 Although generally accepted accounting principles (GAAP) do not require comparative financial statements, the Employee Retirement Income Security Act of 1974 (ERISA) requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the ERISA requirements for comparative statements.

.06 ERISA and U.S. Department of Labor (DOL) regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor. See appendix A of the guide for further discussion of the ERISA and DOL requirements.

* For specific information on Financial Accounting Standards Board *Accounting Standards Codification*™ and its effect on these illustrative financial statements, please see the notice to readers in the guide and FSP section 7000.

Illustration of Auditors' Report on Financial Statements of a Defined Benefit Plan Assuming End-of-Year Benefit Information Date

Independent Auditors' Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits and of accumulated plan benefits of C&H Company Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year ended December 31, 20X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. [*Optional: An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.*][1] An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial status of the Plan as of December 31, 20X2 and 20X1, and the changes in its financial status for the year ended December 31, 20X2, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.[2]

[*Signature of Firm*]

[*City and State*]

[*Date*][3]

[AAG 13.04 and 13.10–.11]

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[1] This optional language may be added to the auditor's standard report to clarify that an audit performed in accordance with generally accepted auditing standards (GAAS) does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Act is applicable. If this optional language is added then the remainder of the paragraph should read as follows:

> "An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion."

See Interpretation No. 17, "Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards," of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .85–.88), issued in June 2004.

[2] This paragraph on the supplemental schedules required by the Employee Retirement Income Security Act of 1974 (ERISA) and Department of Labor (DOL) regulations may also be shown separately in the auditor-submitted document.

[3] The auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion (AICPA, *Professional Standards*, vol. 1, AU sec. 530 par. .01).

.07

Illustration of Auditors' Report on Financial Statements of a Defined Benefit Plan Assuming Beginning-of-Year Benefit Information Date

Independent Auditors' Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits of C&H Company Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits for the years then ended and the statement of accumulated plan benefits as of December 31, 20X1, and the related statement of changes in accumulated plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. [*Optional: An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.*][4] An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, information regarding the Plan's net assets available for benefits as of December 31, 20X2, and changes therein for the year then ended and its financial status as of December 31, 20X1, and changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.[5]

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.05 and 13.10–.11]

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[4] This optional language may be added to the auditor's standard report to clarify that an audit performed in accordance with GAAS does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Act is applicable. If this optional language is added then the remainder of the paragraph should read as follows:

> "An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion."

See Interpretation No. 17 of AU section 508.

[5] This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

.08

Illustration of Auditors' Report on Financial Statements—Limited-Scope Audits Under DOL Regulations†

Independent Auditors' Report

[Addressee]

We were engaged to audit the accompanying statements of net assets available for benefits of C&H Company Pension Plan as of December 31, 20X1 and 20X0, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X1, and the supplemental schedules of (1) Schedule H, line 4i—Schedule of Assets Held (At End of Year), and (2) Schedule H, line 4j—Schedule of Reportable Transactions as of or for the year ended December 31, 20X1. These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 20X1 and 20X0 and for the year ended December 31, 20X1, that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not express an opinion on the accompanying financial statements and supplemental schedules taken as a whole. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee (or custodian) have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.26]

† This illustration assumes that information regarding accumulated plan benefits and changes therein is included in the notes to the financial statements. If the plan's financial statements are prepared on the cash basis or a modified cash basis of accounting, the auditor's report should also include a paragraph that states the basis of presentation and refers to the note in the financial statements that describes the basis and states that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles. Paragraph 13.22 of the guide provides an illustration of the wording of such paragraph.

.09 ***Change in Trustee.*** The following illustrates an auditor's report reflecting a change in trustee for a pension plan.

Report of Independent Certified Public Accountants

To the C&H Company Pension Plan
and Participants:

We were engaged to audit the accompanying statements of net assets available for benefits and of accumulated plan benefits of C&H Company Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year ended December 31, 20X2, and the supplemental schedules of (1) Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of December 31, 20X2, and (2) Schedule H, line 4j—Schedule of Reportable Transactions for the year ended December 31, 20X2. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the investment information summarized in Note X, which was certified by the ABC Bank and XYZ Trust Company, the trustees of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that XYZ Trust Company held the Plan's investment assets and executed investment transactions from July 1, 20X2 to December 31, 20X2, and that ABC Bank held the Plan's investment assets and executed investment transactions as of December 31, 20X1 and for the period January 1, 20X1 to June 30, 20X2. The plan administrator has obtained certifications from the trustees as of and for the years ended December 31, 20X2 and 20X1, that the information provided to the plan administrator by the trustees is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules taken as a whole. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the investment information certified by the trustees, have been audited by us in accordance with auditing standards generally accepted in the United States and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[*Signature of Firm*]

[*City and State*]

[*Date*][6]

[AAG 13.31]

[6] The auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion (AICPA, *Professional Standards*, vol. 1, AU sec. 530 par. .01).

The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated.

.10

C&H COMPANY PENSION PLAN

Statements of Net Assets Available for Benefits

[End-of-year benefit information date]

	December 31,	
	20X1	*20X0*
Assets		
Investments, at fair value (notes E, F, G, and H):		
Plan interest in C&H master trust	$2,250,000	$1,860,000
C&H Company common stock	690,000	880,000
Investment contract with insurance company	1,000,000	890,000
Corporate bonds and debentures	3,500,000	3,670,000
U.S. government securities	350,000	270,000
Mortgages	480,000	460,000
Real estate	270,000	240,000
Total investments	8,540,000	8,270,000
Receivables:		
Employer's contribution	40,000	35,000
Securities sold	310,000	175,000
Accrued interest and dividends	77,000	76,000
Total receivables	427,000	286,000
Cash	200,000	90,000
Total assets	9,167,000	8,646,000
Liabilities		
Due to broker for securities purchased	—	400,000
Accounts payable	70,000	60,000
Accrued expenses	85,000	40,000
Total liabilities	155,000	500,000
Net assets available for benefits	$9,012,000	$8,146,000

The accompanying notes are an integral part of the financial statements.

.11

C&H COMPANY PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

[End-of-year benefit information date]

	Year Ended December 31, 20X1
Investment income	
Net appreciation in fair value of investments (note E)	$ 278,000
Interest	325,000
Dividends	5,000
	608,000
Less investment expenses	39,000
	569,000
Plan interest in C&H master trust investment income (note G)	129,000
	698,000
Contributions (note C)	
Employer	780,000
Employees	450,000
	1,230,000
Total additions	1,928,000
Benefits paid directly to participants	740,000
Purchases of annuity contracts (note H)	257,000
	997,000
Administrative expenses	65,000
Total deductions	1,062,000
Net increase	866,000
Net assets available for benefits	
Beginning of year	8,146,000
End of year	$9,012,000

The accompanying notes are an integral part of the financial statements.

Note: Pursuant to FASB Statement No. 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale—an amendment of FASB Statement No. 95*, a statement of cash flows is not required for defined benefit pension plans covered by FASB Statement No. 35. However, plans are encouraged to include a statement of cash flows with their annual financial statements when that statement would provide relevant information about the ability of the plan to meet future obligations (for example, when the plan invests in assets that are not highly liquid). [FASB Statement No. 102 par. 5]

.12

C&H COMPANY PENSION PLAN

Statements of Accumulated Plan Benefits

[End-of-year benefit information date]

	December 31,	
	20X1	*20X0*
Actuarial present value of accumulated plan benefits (notes B and C)		
Vested benefits:		
Participants currently receiving payments	$3,040,000	$2,950,000
Other participants	8,120,000	6,530,000
	11,160,000	9,480,000
Nonvested benefits	2,720,000	2,400,000
Total actuarial present value of accumulated plan benefits	$13,880,000	$11,880,000

The accompanying notes are an integral part of the financial statements.

.13

C&H COMPANY PENSION PLAN

Statement of Changes in Accumulated Plan Benefits

[End-of-Year benefit information date]

	Year Ended December 31, 20X1
Actuarial present value of accumulated plan benefits at beginning of year	$11,880,000
Increase (decrease) during the year attributable to:	
Plan amendment (note I)	2,410,000
Change in actuarial assumptions (note B)	(1,050,500)
Benefits accumulated	895,000
Increase for interest due to the decrease in the discount period (note B)	742,500
Benefits paid	(997,000)
Net increase	2,000,000
Actuarial present value of accumulated plan benefits at end of year	$13,880,000

The accompanying notes are an integral part of the financial statements.

.14

C&H Company Pension Plan

Notes to Financial Statements[7]

A. Description of Plan

The following brief description of the C&H Company Pension Plan (plan) is provided for general information purposes only. Participants should refer to the plan agreement for more complete information.

1. *General*. The plan is a defined benefit pension plan covering substantially all employees of C&H Company (company). It is subject to the provisions of ERISA.
2. *Pension Benefits*. Employees with 5 or more years of service are entitled to annual pension benefits beginning at normal retirement age (65) equal to 1 percent of their final 5-year average annual compensation for each year of service. The plan permits early retirement at ages 55–64. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity. If employees terminate before rendering 5 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to the company's contributions. Employees may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or termination, or they may elect to receive their benefits as a life annuity payable monthly from retirement. For each employee electing a life annuity, payments will not be less than the greater of (*a*) the employee's accumulated contributions plus interest or (*b*) an annuity for 5 years.
3. *Death and Disability Benefits*. If an active employee dies at age 55 or older, a death benefit equal to the value of the employee's accumulated pension benefits is paid to the employee's beneficiary. Active employees who become totally disabled receive annual disability benefits that are equal to the normal retirement benefits they have accumulated as of the time they become disabled. Disability benefits are paid until normal retirement age at which time disabled participants begin receiving normal retirement benefits computed as though they had been employed to normal retirement age with their annual compensation remaining the same as at the time they became disabled.

B. Summary of Accounting Policies

The following are the significant accounting policies followed by the plan:

1. *Basis of Accounting*. The accompanying financial statements are prepared on the accrual basis of accounting.
2. *Use of Estimates.* The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.
3. *Investment Valuation and Income Recognition*. Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note F for a discussion of fair value measurements.

[7] The notes are for the accompanying illustrative financial statements that use an end-of-year benefit information date. Modifications necessary to accompany the illustrative financial statements that use a beginning-of-year benefit information date are presented in brackets.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the plan's gains and losses on investments bought and sold as well as held during the year.

4. *Actuarial Present Value of Accumulated Plan Benefits.* Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (*a*) retired or terminated employees or their beneficiaries, (*b*) beneficiaries of employees who have died, and (*c*) present employees or their beneficiaries. Benefits under the plan are based on employees' compensation during their last five years of credited service. The accumulated plan benefits for active employees are based on their average compensation during the five years ending on the date as of which the benefit information is presented (the valuation date). Benefits payable under all circumstances—retirement, death, disability, and termination of employment—are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided via annuity contracts excluded from plan assets are excluded from accumulated plan benefits.

   The actuarial present value of accumulated plan benefits is determined by an actuary from the AAA Company and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 20X1 [20X0] and 20X0 were (*a*) life expectancy of participants (the RP 2000 Combined Mortality Table was used), (*b*) retirement age assumptions (the assumed average retirement age was 60), and (*c*) investment return. The 20X1 [20X0] and 20X0 valuations included assumed average rates of return of 7 percent [6.25 percent] and 6.25 percent, respectively, including a reduction of .2 percent to reflect anticipated administrative expenses associated with providing benefits. The foregoing actuarial assumptions are based on the presumption that the plan will continue. Were the plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

5. *Payment of Benefits*. Benefit payments to participants are recorded upon distribution.

C. Funding Policy

As a condition of participation, employees are required to contribute 3 percent of their salary to the plan. Present employees' accumulated contributions at December 31, 20X1 and 20X0 were $2,575,000 and $2,325,000, respectively, including interest credit on an interest rate of 5 percent compounded annually. The company's funding policy is to make annual contributions to the plan in amounts that are estimated to remain a constant percentage of employees' compensation each year (approximately 5 percent for 20X1 [and 20X0]), such that, when combined with employees' contributions, all employees' benefits will be fully provided for by the time they retire. Beginning in 20X2, the company's contribution is expected to increase to approximately 6 percent to provide for the increase in benefits attributable to the plan amendment effective July, 20X1 (note H). The company's contributions for 20X1 [and 20X0] exceeded the minimum funding requirements of ERISA.

Although it has not expressed any intention to do so, the company has the right under the plan to discontinue its contributions at any time and to terminate the plan subject to the provisions set forth in ERISA.

D. Plan Termination

In the event the plan terminates, the net assets of the plan will be allocated, as prescribed by ERISA and its related regulations, generally to provide the following benefits in the order indicated:

1. Benefits attributable to employee contributions, taking into account those paid out before termination.
2. Annuity benefits that former employees or their beneficiaries have been receiving for at least three years, or that employees eligible to retire for that three-year period would have been receiving if they had retired with benefits in the normal form of annuity under the plan. The priority amount is limited to the lowest benefit that was payable (or would have been payable) during those three years. The amount is further limited to the lowest benefit that would be payable under plan provisions in effect at any time during the five years preceding plan termination.
3. Other vested benefits insured by the Pension Benefit Guaranty Corporation (PBGC) (a U.S. government agency) up to the applicable limitations (discussed subsequently).
4. All other vested benefits (that is, vested benefits not insured by the PBGC).
5. All nonvested benefits.

Benefits to be provided via contracts under which National (note H) is obligated to pay the benefits would be excluded for allocation purposes.

Certain benefits under the plan are insured by the PBGC if the plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the plan are guaranteed at the level in effect on the date of the plan's termination. However, a statutory ceiling exists, which is adjusted periodically, on the amount of an individual's monthly benefit that the PBGC guarantees. For plan terminations occurring during 20X2 that ceiling is $X,XXX per month. That ceiling applies to those pensioners who elect to receive their benefits in the form of a single-life annuity and are at least 65 years old at the time of retirement or plan termination (whichever comes later). For younger annuitants or for those who elect to receive their benefits in some form more valuable than a single-life annuity, the corresponding ceilings are actuarially adjusted downward. Benefit improvements attributable to the plan amendment effective July 1, 20X1 (note I) may not be fully guaranteed even though total benefit entitlements fall below the aforementioned ceilings. For example, none of the improvement would be guaranteed if the plan were to terminate before July 1, 20X2. After that date, the PBGC would guarantee 20 percent of any benefit improvements that resulted in benefits below the ceiling, with an additional 20 percent guaranteed each year the plan continued beyond July 1, 20X2. If the amount of the benefit increase below the ceiling is also less than $100, $20 of the increase (rather than 20 percent) becomes guaranteed by the PBGC each year following the effective date of the amendment. As a result, only the primary ceiling would be applicable after July 1, 20X6.

Whether all participants receive their benefits should the plan terminate at some future time will depend on the sufficiency, at that time, of the plan's net assets to provide for accumulated benefit obligations and may also depend on the financial condition of the plan sponsor and the level of benefits guaranteed by the PBGC.

E. Investments

The following table presents the fair values of investments.‡ Investments that represent 5 percent or more of the plan's net assets are separately identified.

	December 31, 20X1	December 31, 20X0
C&H Company common stock, 25,000 shares	$ 690,000	$ 880,000
U.S. government securities	350,000	270,000
Corporate bonds	3,500,000	3,670,000
Plan interest in C&H Master Trust	2,250,000	1,860,000
Investment contract with National Insurance Company #8041A, 8.0% (note G)	1,000,000	890,000
Mortgages	480,000	460,000
Real estate	270,000	240,000
	$8,540,000	$8,270,000

During 20X1 [and 20X0], the plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by $278,000 [and $41,000, respectively,] as follows:

Net Appreciation (Depreciation) in Fair Value

	Year Ended December 31, 20X1	Year Ended December 31, 20X0
C&H Company common stock	$208,000	$(59,000)
U.S. government securities	20,000	40,000
Corporate bonds	(40,000)	60,000
Investment contract with insurance company	40,000	100,000
Mortgages	100,000	(90,000)
Real estate	(50,000)	(10,000)
	$278,000	$41,000

F. Fair Value Measurements

FASB Statement No. 157 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
Level 2	Inputs to the valuation methodology include • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets;

(continued)

‡ See note F for discussion of fair value measurements.

	• inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at December 31, 20X1 and 20X0.

USERS' NOTE: Note that information contained herein for fair value disclosures is based upon information for the Illustration of Financial Statements: Defined Benefit Pension (C&H Company Pension Plan) as presented previously. This illustrative disclosure is not representative of all types of investment securities and does not represent the classification for every instance of such investment securities. It should not be assumed that these methodologies are the only appropriate methodologies for these types of assets. As stated in FASB Statement No. 157, "The principle (or most advantageous) market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities." Plan sponsors will have to evaluate the appropriate classification for each type of investment securities based upon the plan's portfolio and actual fair valuation techniques used.

C&H Company common stock: Valued at the closing price reported on the New York Stock Exchange.

Investment contract with the National Insurance Company (National): Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer (See note H). Funds under the investment contract that have been allocated and applied to purchase annuities (that is, National is obligated to pay the related pension benefits) are excluded from the plan's assets.

Corporate bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

U.S. government securities: Valued at the closing price reported in the active market in which the individual security is traded.

Mortgages: Valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar investments.

Real estate: Valued on the basis of a discounted cash flow approach, which includes the future rental receipts, expenses, and residual values as the highest and best use of the real estate from a market participant view as rental property.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 20X1, and 20X0. The following table does not include the plan's interest in the C&H Master Trust because that information is presented in a separate table (See note G):

PRACTICE TIP: The following illustrations assume that FASB Statement No. 157 was in effect for both periods presented, December 31, 20X1 and 20X0. In the first year of adoption, the subsequent tables are not required to be comparative. Disclosures in accordance with FASB Statement No. 35 would be considered sufficient for the prior year.

	Assets at Fair Value as of December 31, 20X1			
	Level 1	*Level 2*	*Level 3*	*Total*
C&H Company common stock	$690,000	—	—	$690,000
Investment contract with National Insurance Company	—	—	1,000,000	1,000,000
Corporate bonds	2,000,000	1,000,000	500,000	3,500,000
U.S. government securities	350,000	—	—	350,000
Mortgages	—	480,000	—	480,000
Real Estate	—	—	270,000	270,000
Total assets, excluding plan interest in C&H Master Trust, at fair value	**$3,040,000**	**$1,480,000**	**$1,770,000**	**$6,290,000**

	Assets at Fair Value as of December 31, 20X0			
	Level 1	*Level 2*	*Level 3*	*Total*
C&H Company common stock	$880,000	—	—	$880,000
Investment contract with National Insurance Company	—	—	890,000	890,000
Corporate bonds	2,250,000	1,200,000	220,000	3,670,000
U.S. government securities	270,000	—	—	270,000
Mortgages	—	460,000	—	460,000
Real estate	—	—	240,000	240,000
Total assets, excluding plan interest in C&H Master Trust, at fair value	**$3,400,000**	**$1,660,000**	**$1,350,000**	**$6,410,000**

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the plan's level 3 assets for the year ended December 31, 20X1.

	Level 3 Assets		
	Investment Contract With National Insurance Company	*Corporate Bonds*	*Real Estate*
Balance, beginning of year	$890,000	$220,000	$240,000
Realized gains/(losses)	—	100,000	25,000
Unrealized gains/(losses) relating to instruments still held at the reporting date	40,000	(30,000)	(75,000)
Purchases, sales, issuances, and settlements (net)	70,000	210,000	80,000
Balance, end of year	**$1,000,000**	**$500,000**	**$270,000**

G. Interest in C&H Master Trust

A portion of the plan's investments are in the Master Trust which was established for the investment of assets of the plan and several other C&H Company sponsored retirement plans. Each participating retirement plan has an undivided interest in the Master Trust. The assets of the Master Trust are held by GLC Trust Company (Trustee).

The value of the plan's interest in the C&H Master Trust is based on the beginning of year value of the plan's interest in the trust plus actual contributions and allocated investment income less actual distributions and allocated administrative expenses. At December 31, 20X1, and 20X0, the plan's interest in the net assets of the Master Trust was approximately 9 percent and 11 percent, respectively. Investment income and administrative expenses relating to the Master Trust are allocated to the individual plans based upon average monthly balances invested by each plan.

The following table presents the assets, including investments, of the Master Trust.

	December 31,	
	20X1	*20X0*
Common stocks	$11,900,000	$8,800,000
Corporate bonds	11,800,000	6,700,000
U.S. government securities	867,000	750,000
	24,567,000	16,250,000
Receivable for securities sold	433,000	659,091
Total assets, C&H Master Trust	$25,000,000	$16,909,091
Plan interest in C&H Master Trust	$2,250,000	$1,860,000

Investment income for the Master Trust is as follows:

	Year Ended December 31,	
	20X1	*20X0*
Investment income:		
Net appreciation in fair value of investments:		
Common stocks	$300,000	$200,000
Corporate bonds	200,000	200,000
U.S. government securities	300,000	200,000

	800,000	600,000
Interest	400,000	300,000
Dividends	230,000	300,000
	$1,430,000	$1,200,000

The closing prices reported in the active markets in which the securities are traded are used to value the investments in the Master Trust. The following table sets forth by level, within the fair value hierarchy, the Master Trust's assets at fair value as of December 31, 20X1, and 20X0:

PRACTICE TIP: The assets of the Master Trust are classified within level 1 of the fair value hierarchy due to the fact that they are valued using quoted market prices. Note that this is not representative of all master trusts. Accordingly, other master trusts may hold assets that are also classified within levels 2 and 3 of the fair value hierarchy. Presentation in the footnotes to the financial statements should be made accordingly.

	Assets at Fair Value as of December 31, 20X1			
	Level 1	*Level 2*	*Level 3*	*Total*
Common stocks	$11,900,000	—	—	$11,900,000
Corporate bonds	11,800,000	—	—	11,800,000
U.S. government securities	867,000	—	—	867,000
Total assets at fair value	**$24,567,000**			**$24,567,000**

	Assets at Fair Value as of December 31, 20X0			
	Level 1	*Level 2*	*Level 3*	*Total*
Common stocks	$8,800,000	—	—	$8,800,000
Corporate bonds	6,700,000	—	—	6,700,000
U.S. government securities	750,000	—	—	750,000
Total assets at fair value	**$16,250,000**			**$16,250,000**

H. Contract With Insurance Company

In 20W8, the company entered into an investment contract with National under which the plan deposits a minimum of $100,000 a year. National maintains the contributions in an unallocated fund to which it adds interest at a rate of 8 percent. The interest rate is guaranteed through 20X3 but is subject to change for each succeeding five-year period. When changed, the new rate applies only to funds deposited from the date of change. At the direction of the plan's administrator, a single premium to buy an annuity for a retiring employee is withdrawn by National from the unallocated fund. Purchased annuities are contracts under which National is obligated to pay benefits to named employees or their beneficiaries. The premium rates for such annuities to be purchased in the future and maximum administration expense charges against the fund are also guaranteed by National on a five-year basis.

The annuity contracts provide for periodic dividends at National's discretion on the basis of its experience under the contracts. Such dividends received by the plan for the year(s) ended December 31, 20X1 [and 20X0] were $25,000 [and $24,000, respectively]. In reporting changes in net assets, those dividends have been netted against amounts paid to National for the purchase of annuity contracts.

I. Plan Amendment

Effective July 1, 20X1, the plan was amended to increase future annual pension benefits from 1¼ to 1½ percent of final 5-year average annual compensation for each year of service, including service rendered before the effective date. The retroactive effect of the plan amendment, an increase in the actuarial present value of accumulated plan benefits of $2,410,000, was accounted for in the year ended December 31, 20X1. [The actuarial present value of accumulated plan benefits at December 31, 20X0 do not reflect the effect of that plan amendment. The plan's actuary estimates that the amendment's retroactive effect on the actuarial present value of accumulated plan benefits at December 31, 20X0 was an increase of approximately $1,750,000, of which approximately $1,300,000 represents an increase in vested benefits.]

J. Tax Status

The Internal Revenue Service has determined and informed the company by a letter dated June 30, 20XX, that the plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The plan has been amended since receiving the determination letter. However, the plan administrator and the plan's tax counsel believe that the plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

K. Risks and Uncertainties

The plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Note: Paragraphs .15–.17 illustrate certain applications of the provision of SOP 99-2 that apply for the annual financial statements of a hypothetical defined benefit pension plan that has been amended to include a 401(h) account. The following illustrative defined benefit pension plan financial statements are not representative of a complete set of financial statements and notes thereto. Note that the disclosure requirements of FASB Statement No. 157 are applicable to the assets and liabilities measured at fair value held in a 401(h) account. Accordingly, defined benefit plan financial statements that include a 401(h) account are required to include the fair value measurement disclosure requirements of FASB Statement No. 157 for the underlying assets and liabilities measured at fair value in the 401(h) account.

.15

C&H COMPANY PENSION PLAN

Statement of Net Assets Available for Pension Benefits

	December 31,	
	20X1	*20X0*
Assets		
Investments, at fair value (note A):		
Plan interest in C&H master trust	$ 2,000,000	$ 1,660,000
C&H Company common stock	600,000	800,000
Investment contract with insurance company	850,000	800,000
Corporate bonds	3,000,000	3,170,000
U.S. government securities	300,000	200,000
Mortgages	480,000	460,000
Money market fund	270,000	240,000
Total investments	7,500,000	7,330,000
Net assets held in 401(h) account (note I)[8]	1,072,000	966,000
Receivables:		
Employer's contribution	20,000	10,000
Securities sold	310,000	175,000
Accrued interest and dividends	70,000	70,000
Total receivables	400,000	255,000
Cash	180,000	80,000
Total **assets**	9,152,000	8,631,000
Liabilities		
Due to broker for securities purchased	—	400,000
Accounts payable	70,000	60,000
Accrued expenses	70,000	25,000
Amounts related to obligation of 401(h) account	1,072,000	966,000
Total **liabilities**	1,212,000	1,451,000
Net assets available for pension benefits	$ 7,940,000	$ 7,180,000

The accompanying notes are an integral part of the financial statements.

[8] Any assets held for investment purposes in the 401(h) account should be shown on Schedule H, line 4i—Schedule of Assets (Held at End of Year), and Schedule H, line 4j—Schedule of Reportable Transactions, for the pension plan.

.16

C&H COMPANY PENSION PLAN

Statement of Changes in Net Assets Available for Pension Benefits

	For the Year Ended December 31, 20X1
Investment income:	
Net appreciation in fair value of investments	$ 233,000
Interest	293,000
Dividends	4,000
	530,000
Less investment expenses	30,000
	500,000
Plan interest in C&H master trust investment income (note G)	117,000
	617,000
Contributions (note C):	
Employer	740,000
Employees	450,000
Total **additions**	1,190,000
	1,807,000
Benefits paid directly to participants	740,000
Purchases of annuity contracts (note H)	257,000
	997,000
Administrative expenses	50,000
Total **deductions**	1,047,000
Net **increase**	760,000
Net assets available for pension benefits:	
Beginning of year	7,180,000
End of year	$ 7,940,000

The accompanying notes are an integral part of the financial statements.

.17

Notes to Financial Statements

A. 401 (h) Account

Effective January 1, 20X0, the plan was amended to include a medical-benefit component in addition to the normal retirement benefits to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with Section 401(h) of the IRC. A separate account has been established and maintained in the Plan for the net assets related to the medical-benefit component (401(h) account). In accordance with IRC Section 401(h), the plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. Any assets transferred to the 401(h) account from the defined benefit pension plan in a qualified transfer of excess pension plan assets (and any income allocable thereto) that are not used during the plan year must be transferred out of the account to the pension plan. The related obligations for health benefits are not included in this plan's obligations in the statement of accumulated plan benefits but are reflected as obligations in the financial statements of the health and welfare benefit plan. Plan participants do not contribute to the 401(h) account. Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the Plan Sponsor. Certain of the plan's net assets are restricted to fund a portion of postretirement health benefits for retirees and their beneficiaries in accordance with IRC Section 401(h).

H. Reconciliation of Financial Statements to Form 5500[9]

The following is a reconciliation of net assets available for pension benefits per the financial statements to the Form 5500:

	December 31,	
	20X1	*20X0*
Net assets available for pension benefits per the financial statements	$ 7,940,000	$ 7,180,000
Net assets held in 401(h) account included as assets in Form 5500	1,072,000	966,000
Net assets available for benefits per the Form 5500	$ 9,012,000	$ 8,146,000

The net assets of the 401(h) account included in Form 5500 are not available to pay pension benefits but can be used only to pay retiree health benefits.

The following is a reconciliation of the changes in net assets per the financial statements to the Form 5500:

	For the Year Ended December 31, 20X1		
	Amounts per Financial Statements	*401(h) Account*	*Amounts per Form 5500*
Net appreciation in fair value of investments	$233,000	$10,800	$243,800
Interest income	293,000	80,200	373,200
Employer contributions	740,000	40,000	780,000
Benefits paid to retirees	740,000	10,000	750,000
Administrative expenses	50,000	15,000	65,000

[9] The reconciliation of amounts reported in the plan's financial statements to amounts reported in Form 5500 is required by ERISA.

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